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CAN BUSINESS PREVENT
UNEMPLOYMENT

CAN BUSINESS PREVENT UNEMPLOYMENT

BY

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UNEMPLOYMENT

CHAPTER I

A NEW ATTITUDE TOWARD UNEMPLOYMENT

Most writers who have discussed unemployment have placed their emphasis upon the social ill effects which this evil produces. The authors of this book propose to attack the problem from a different angle. It is their contention that unemployment is a needless waste which cuts down business profits. We propose to show that the amount of unemployment in any one business or industry is often the measure of inefficiency in that business or industry and that a reduction of unemployment is usually reflected in the balance sheet by an increase of net income. This result has been achieved in almost all the cases mentioned in Chapter II.

Unemployment, then, is not only harmful from a social point of view. It is wasteful from a business point of view.

Fortunately, in the last decade, a large number of individuals have interested themselves in the

problem of unemployment who could study this question, not as "outsiders," with a comparative theoretical knowledge, but as "insiders" with some first hand knowledge of the industrial structure. It is naturally in a constructive spirit that they have approached the problem. It was formerly customary (one might say fashionable) to attempt to discover solutions for any of our problems through the *magic* of legislation. This was largely due to our naïve faith in political agencies before our national life had become large and complicated. But gradually there has come a realization that the best way to solve some questions is not by trying to deal with them from the outside, but by carefully studying underlying causes. Instead of treating the superficial symptoms with proprietary legislative panaceas these "insiders" have looked within the activities from which these evils come and attempted to remedy the trouble in a fundamental way. They have carefully studied the daily régime of our industrial patient and then presented a program of industrial hygiene. Like all hygiene the new discipline and practices may be irksome at the start. But self-help of this kind is in keeping with our self-reliant American traditions.

We have, therefore, emphasized the effective-

ness of self-help on the part of the real "insiders" of industry, the business executives, and suggested that the application of "Yankee" ingenuity within the various enterprises of this country can do much to lessen unemployment.

Aside from the matter of profits, business executives should realize that they have helped to build an enormous industrial structure within which a large part of our population spend their lives. This has necessarily brought about a new theory as to the responsibilities of those who are the influential factors in maintaining that structure.

Such new responsibilities are not necessarily enforceable by law. As a distinguished jurist of wide practical experience has pointed out, there is a large border line of duties that are part of our customary conduct but which must be left to the consciences of individuals. Among these duties and responsibilities is that of so conducting a business as to give, as far as it is humanly possible, continuous employment to the working force.

In this instance, however, there is no conflict between the perfectly normal desire of the business man for profits and productivity on the one hand and his public obligation and human responsibility on the other. To keep a constant

and loyal working force is profitable, and so is the business analysis and stabilization which results in making regular the employment of that force.

Of course, the mitigation of unemployment depends not only upon the action of manufacturers and producers but also upon the action of financial and banking groups. The problem of how far banking policies can prevent the catastrophe of excessive booms and depressions is a special subject upon which there has been ample and lively discussion elsewhere. In view of the limitations of size of a book that could be read by men in active life we have not gone into this phase for, if given the adequate treatment which it deserves, it would require a book in itself. We have, therefore, confined ourselves to emphasizing the large possibilities there are in treating this problem through policies adopted by producers and industrialists.

To secure the coöperation of those engaged in private industries would seem to be a necessity, if we are aiming at anything like a widespread attack upon the unemployment evil. With these facts in mind, the present authors have tried to make this book acceptable in arrangement, size and contents to men engaged in active industrial life.

CHAPTER II

HOW SOME OF US HAVE MET UNEMPLOYMENT

THE same principles must be applied to unemployment which are applied to other phases of our life. When we are faced with an outbreak of yellow fever or typhoid we could easily say that it is a germ or a mosquito, or the dirt or the pollution that is the cause of the epidemic. What we do say in these cases is that it is neglect on the part of the authorities which is the *cause.*

In this book the authors are suggesting that *to a very considerable extent unemployment is caused by neglect.* It is largely due to lack of sufficient attention to the problem on the part of management. We have also suggested that research and experiments in individual plants will discover new methods of making business more steady and thus of avoiding unemployment. Such experimentation is not only justified but is an imperative necessity, since individual enterprises have been found to be the most

effective avenues of approach to these problen
and since business executives are, by reason
the positions they occupy, the most influenti
factors in these matters. It is obvious that t
employee is helpless. He has neither the know
edge nor the power to influence the situatic
out of which unemployment arises. The contr
of unemployment, then, is actually in the han
of the influential business executive and for
the business man is primarily responsible.

Unemployment can be reduced. First, b
attacking the problem in a personal way throug
the efforts of individual employers and secondl
by attacking the problem in a public way.

How can individual employers reduce unen
ployment in their own plants? The best answe
to that question is to give the experience
employers who have already done it. Bu
before citing these definite cases, it is well, for th
sake of clearness, to divide them into three class
in order to correspond with the three distin
types of unemployment which may exist.

Unemployment may be seasonal, casual an
cyclical. Those firms whose experience we he
present briefly have grappled with these differe
types of unemployment and to a considerab
degree have overcome the worst effects of eac
While their cases may be considered typica

we do not wish to infer that the methods which they employ are necessarily applicable to all establishments. We know that circumstances alter cases and that there can be no definite standard for everyone to follow. In other words, it is a question of emphasis, not of any particular method. Our sole purpose in giving these cases is to illustrate the fact if employers will take the time and care to study this problem day in and day out, the chances are that they will be rewarded; and this reward will usually take the form not only of reduced unemployment but of increased business profits as well.

1. *Seasonal Unemployment*

By seasonal unemployment we mean just what the name implies. It indicates that type of unemployment which exists in industry as the result of the yearly seasons. Winter compels a change of diet, clothes and recreation; it interferes with some kinds of work like agriculture, building and road construction. It causes people to change from fishing and golf to theatres and bridge. It creates an increased demand for coal and overcoats and a decreased demand for gasoline, tires, ice cream and Palm Beach suits. Almost every economic occupation, from law and

preaching to manufactures, agriculture, transportation, lumbering and fishing, has its busy and dull seasons. Although seasonal unemployment varies in amount from year to year, we might call it normal unemployment as opposed to the extraordinary unemployment which takes place in more or less regular cycles over a long term of years.

Some industries are comparatively immune to seasonal changes. For instance, in metal mining, during ordinary times, the men are engaged almost every working day of the year and on an eight hour schedule. But such cases are rare. In most industries there is the problem to face which electrical engineers call the "peak load." More than half of the year's business is usually concentrated at one time of the year or in two short busy seasons. Unless some action is taken to meet the problem, there is no work for the employees of those industries except during the rush season and the plant remains practically idle for the balance of the year.

Such a condition necessarily has many evil effects. It is demoralizing to the workers and piles up the cost of manufacturing. With human nature as it is, continuous employment is a prerequisite to the stabilizing of a man's character as well as a prerequisite to the lowering of

cost. The "rush season" problem is in no way new and yet the organized search for its cure is only of recent origin. Although much interest in making unemployment more regular has been shown in the last few years, there are not half a dozen investigators who have delved into the subject in any *comprehensive* way. That is why we are anxious to bring to light, if we can, the latest information available.

There may be said to be three ways of meeting this problem. The first is by concentrating on the distributive side of the business, i. e., endeavoring to stretch out the season of buying over as many months of the year as is possible through advertising, ingenuities of salesmanship, and if necessary, by cutting of prices at certain periods.

For example, walnuts and cranberries, which used to be sold mostly through the Thanksgiving and Christmas holidays, have been made, by advertising, an all-year-around product. There is also the well known example of the railroads which run to the Pacific Coast. Their round-trip fares in the summer time are no more than their one-way fares in the winter. One of the best examples of the cut-rate inducement is the summer discount introduced in 1900 by the anthracite coal companies. Studies made by the

U. S. Geological Survey indicate that there has been a marked reduction in the number of days of idleness per annum in the anthracite coal industry, and a good deal of this result is attributed to the summer discount. The American Radiator Company is one of the most recent examples of firms which have decided to offer substantial inducements to purchasers who will secure their requirements during the period of lowest demand. The difference in price between the peak load period and the slackest month is over 8%, and this liberal discount is already proving a stimulus to more even demand.

S. C. Johnson Company, Racine, Wis., manufacturers of floor wax, had a highly seasonal business because the bulk of their sales came at house-cleaning time. Their market was originally confined to the Northern states and house-cleaning time in these states always occurred in the spring and fall. They investigated conditions throughout the country and discovered that house-cleaning time in the South came during the summer and winter. So by developing their sales in different states during different months they have made it possible to maintain their manufacturing processes on a more or less even basis throughout the entire year.

When the B. V. D. underwear first came out,

it was worn as a summer garment. But a great many people in cities and elsewhere do not care for warm underclothing. By advertising it was possible to build up a considerable demand for the same type of athletic garment to be worn in the winter. Looking backward, it seems perfectly reasonable that people who spend most of their day indoors on a clerical job will find heavy woolen underwear uncomfortable. But no doubt many underwear manufacturers would have considered the idea of selling light underwear for winter use laughable and would not have thought of risking money on this precarious experiment.

Mr. Adrian D. Joyce, General Manager of the Sherwin-Williams Paint Company, of Cleveland, Ohio, was quoted recently as saying:— "The time was when two-thirds of our business came to us during the spring of the year, and the people had an idea that the only time to paint was in the spring. We launched a 'Paint in the Fall' campaign and as a result our fall trade is now just as great as our spring trade. We planned a 'Finish the Floors' campaign and brought out the fact that the old-fashioned carpets were unsanitary— showed how old floors could be refinished with paint and varnish, and rugs used. This made

it possible and desirable for painting to be done in the winter. One season follows another until now the consumer paints and varnishes the year round, and our products, instead of being seasonal ones, now have an all-the-year-around demand."

The Ford Motor Company has been more or less secure in the total demand for its products but troubled by the seasonal peaks of sale. The heaviest demand for cars used to come in early spring and summer. With a volume of production of hundreds of thousands of cars, it would have been impossible to manufacture ahead for stock in large enough quantities or to find a place to store the cars. And if stored, it would have been almost impossible to ship them during the rush season. The cost of the car would have been higher if the winter period had not been used for production. The overhead would have been greater and employment would have fluctuated in accordance with the peaks and valleys of demand.

The idea suggested itself to this Company that the retailer should be induced to purchase out of season. But he in turn could not well afford to stock up with cars if the consumer would not buy them except in one season. What was needed, therefore, was a campaign to prove the

all-the-year-round value of a car rather than its use in a limited season. Mr. Henry Ford claims his firm was the first to meet the problem in the automobile business. Those who think of the Ford Motor Company as primarily a factory organization will be surprised at the emphasis it puts upon the merchandising aspect of the business. In his autobiography Mr. Ford states:—

"We very shortly found that we could not do business on order. The factory could not be built large enough—even were it desirable—to make, between March and August, all the cars that were ordered during those months. Therefore, years ago we began the campaign of education to demonstrate that a Ford was not a summer luxury but a year-round necessity. Coupled with that came the education of the dealer into the knowledge that, even if he could not sell so many cars in winter as in summer, it would pay him to stock in winter for the summer business and thus he would be able to make instant delivery at any time. Both plans have worked out. In most parts of the country cars are used almost as much in winter as in summer. It has been found that they will run in snow, ice or mud—in anything. Hence the winter sales are constantly growing larger and the seasonal demand is partly lifted from the dealer. He now finds it profitable to buy ahead in anticipation of his needs. Thus we have no

seasons in the plant; the production up until the last couple of years has been continuous except for the annual shut-downs for inventory. We have had an interruption during the extreme depression (1921) but it was an interruption made necessary in the process of readjusting ourselves to the market conditions."

This list of experiments can be expanded indefinitely and each case considered is a bona fide example of *stabilizing through flattening and extending the duration of the "peak load."*

Secondly, there is the device of introducing supplementary lines. This may take the form of introducing wholly new lines, or on the other hand, of studying the product intensively and adapting it so as to meet other than seasonal needs. The difficulty, of course, here met is that a sales organization which understands how to introduce one line may not possibly understand how to introduce another. Such difficulties, however, can often be overcome. A manufacturer of farm and garden implements introduced a special type of sled, the sale of which fitted in quite perfectly with his otherwise summer seasonal business. A bicycle manufacturer added graphophones. A producer of window-screens took on a line of game boards, sell-

ing to the Christmas trade and thus producing during the six months when his plant was normally idle. A well-known toy manufacturer added mechanical boats, which sell during the part of the year when lakes and ponds can be used. Several canning firms have shown great ingenuity in the types of products they have adopted. The Columbia Conserve Company of Indianapolis, for example, added several supplementary lines, such as pork and beans and chile con carne. This firm in 1908 handled only 7% of its total yearly output during the first six months of the year, but in 1923, with the new lines added, it had increased this percentage to about 33, and the effort to find additional fillers has not ended.

The reed, rattan and fibre industry at one time was much more seasonal in its production than is the case to-day. When the industry first started, chairs were practically the only product made. The anticipation of style changes caused the peak of demand for summer chairs from March to May and for winter chairs from September to December. The manufacturers, therefore, added settees and table lamps and other articles of a similar nature. The relief gained from this departure was considerable, but not as much as hoped for, because the

furniture dealers had been accustomed to buy at certain seasons only and they refused to change their business habits. So the manufacturers tried another plan. They added baby carriages to their line and later doll carriages. The latter, in particular, were so small and inexpensive, that they allowed the manufacturer to purchase raw materials ahead and the dealer to buy ahead. By these means the curve of production has been increasingly lengthened and the hollow between seasons greatly reduced.

Thirdly, there is the method of manufacturing for stock during the slack season. This may be made possible by providing the necessary storage facilities and financing, or it may involve the necessity of introducing a staple line that is safe to manufacture in off seasons.

The case of the Hills Brothers Company is unique in the ease with which it combined these factors and thereby transformed production from a highly seasonal basis to a much more even level. This company is an importer and packer of dates which it packs under the brand name of Dromedary Dates. It has a packing station in Basra, Mesopotamia, at the head of the Persian Gulf. The crop of dates matures in September, is

packed in 70 lb boxes and then transported by steamers to a factory in Brooklyn, N. Y. There the dates are unpacked, cleaned and sterilized and repacked in small cartons, in which form they are sold to the trade. Because of the nature of the crop it is inevitable that the raw material for a whole year's production must arrive at the Brooklyn factory from Mesopotamia between the months of October and January of each year.

As the greatest demand for dates is from September to January, it was customary in the old days to pack in a small way during the first part of the year and then to concentrate upon high speed production during the last four months. This meant an average working force during the first eight months of about two hundred employees (most of whom were not busy in packing dates but engaged in other operations around the plant) and an average force during the last four months of eleven hundred employees. The wrench involved in expanding a working force overnight, so to speak, from two hundred to eleven hundred, is apparent. For years the Company struggled to keep up with the demand for its product which became so insistent in the fall. In attempting to meet this demand there was a temptation to

lower the quality of packing and in other ways to encourage wasteful methods which are bound to creep in under forced draft production.

Finally, conditions became so critical that the executives determined upon a drastic change of policy. Their chemists told them that if, upon arrival, the raw material was placed in cold storage until taken out to be packed, was packed in cartons and then replaced in cold storage, it would keep indefinitely, provided the proper temperatures to be maintained were determined beforehand. Accordingly, the Company erected a cold storage warehouse adjoining its packing plant. It purchased raw material which would supply not only the fall demand but the following year's demand as well. In 1921 the new plan was tried, but only in an experimental way. The experiment proved successful. Dates packed in January were taken out of cold storage in September and found to be in perfect condition.

In the following year of 1922, a much larger quantity was packed during the first half of the year and, for the first time in six years, the supply of Dromedary Dates during the rush season was equal to the demand. After this successful experience, the Company awoke to a realization of the great savings which could be

effected in attacking the problem from a production standpoint. In the past practically no attention had been paid to the kind of labor employed or its effectiveness during employment. The best way to meet such a situation was to establish a personnel department. This the Company did and procured the services of a college woman who had had some personnel experience with department store employees, to take charge of the new work.

One of the first needs which became apparent was that of additional lines during the off season for dates. The Company already had a satisfactory sale in package shredded cocoanut which was a fairly steady seller throughout the year. But this product did not fully solve the problem. Spring and summer were the weak months. So canned figs in syrup for the spring months were added, and for the summer months, canned grapefruit hearts. Also, sliced citron in package form was added to the line for use in the holiday seasons, and later.

All this happened three years ago (1922). It is natural to ask: "How about the situation to-day? What has been the effect of this stabilized production upon the Company's net profits, upon the employees and upon the product itself?" The answer to that question is, first, that the

Company's net profits have increased. It is true that production costs have risen slightly, for a reason to be explained shortly. On the other hand, it is also true that in the first and second years of the full stabilization of the Company's chief product (dates), the superior quality of the product plus a certain amount of judicious advertising, developed a larger sale with much fewer returned goods, so that the increased production cost was more than offset by the increased sale to ultimate consumers. Other savings were effected in the purchase of supplies, methods of packing, and in other ways.

The effect of this new program upon the employees has apparently been successful from every standpoint. Most of the date packers are piece workers. These packers are now assured a practically continous working period throughout the year as contrasted with the situation in the old days, when there was no work to speak of during the first eight months of the year, and then excessive work during the fall and winter. In addition to this steady work, the Company arbitrarily raised all piece rates. It did this in order to leave no stone unturned in drastically improving the quality of the product; and it was this arbitrary raise in wages which largely accounted for the increase in production costs

mentioned previously. Roughly speaking, this raise in wages, plus regular work throughout the year, has made an increase in the income of steady piece workers amounting to 30%, over and above their former yearly earnings.

We can describe in one sentence the effect of stabilized production of dates upon the quality of the product. This quality has improved to a marked degree. Actual comparisons of various kinds, extending over a year's time, prove this beyond the shadow of a doubt. Of course this whole plan of stabilization is new to the Hills Brothers Company. It has been in full swing for hardly more than two years. The evidence to date, however, indicates that regular employment means for the Company a much better product at less cost, and for the employees it means all the satisfaction which goes with higher wages and steadier work.

In December, 1923, the Henry A. Dix & Sons Company, with three factories in New Jersey, after twenty-seven years of successful operation, was sold and transferred to the employees of the business. This transaction received wide publicity. A feature which was, however, not so widely acclaimed was the fact that Mr. Dix and his son, while conducting a business in the highly seasonal ladies' garment

trade, had been giving their workers stable employment. This stabilization not only facilitated the transfer but presents to other employers an example easier and more worthy of imitation than the transfer itself. The Dix Company started as manufacturers of women's summer dresses, a product subject to extreme fluctuations both of season and style. The first step was to keep a successful business from overexpanding. When an annual turnover of a million dollars had been reached, Mr. Dix determined to consolidate and to go no further. The second step was one which is taken by all employers who are determined to stabilize: *the policy of making what you sell was changed to selling what you make.* [1] In order to insure a steady market, the Dix Company developed sober but pleasing designs and careful quality. With a reputation and demand for its products well established, the Dix Company was able to manufacture for stock in the slack season, confident that their models would find a market. However, a third step was found necessary to assure complete stability, namely, combining a staple with a seasonal product. A few additional machines were installed in all three fac-

[1] The evils of the policy of making what you sell are effectively demonstrated in "Waste in Industry."—This is a report of a committee of engineers studying industrial waste.

tories which made it possible to manufacture nurses' uniforms when the stock of cotton porch and house dresses threatened to grow too large. During the past year the directors of the Dix Company have been able to continue these policies as well as to increase the volume of business 10%.[1]

There are two other outstanding examples of stabilizing through manufacture for stock. The Joseph & Feiss Company, Cleveland, Ohio, and the Hickey-Freeman Company, Rochester, N. Y., manufacturers of men's clothing, have given practically continuous work to their employees for over a decade. The Joseph & Feiss Company's chief method has been to reduce the number of styles which it makes to the fewest number and these styles, in turn, to the models containing the least departures from what the average man wants.

Advertising has been concentrated on these models and every effort made and inducement given for the dealer to send in his orders earlier than has been the custom in the trade. With the early orders as a basis, production in advance is carried on during the first part of the season as well as during the time when the heavy orders come in. Nevertheless, at the end of each season

[1] From an article by Jean A. Flexner in the *American Labor Legislation Review* for June, 1924.

and just preceding the new one, there is a temporary lull in demand which makes advance production of the same season's models unsafe. For this reason the firm has made a specialty of conservative serge suits. Heavy advertising is devoted to these models at the proper time and on the basis of the orders received, the "serge specials" serve as a sort of filler for in-between-time manufacturing. Because of their nature, these suits sell at very moderate prices.

The Hickey-Freeman Company is at the other extreme. It caters to the most fastidious trade. Considerations of style play an important part in its business but the company has built up a precedent of not conforming to the extremes of style variations. The more conservative models are manufactured for stock. The slack periods that would remain, in spite of these efforts, are partly provided for by taking on business at cost for mid-season sales.

Closely allied to the method of manufacturing for stock and, in a way, including it is the thorough systematization of production methods which is sometimes called "production planning." The average person sees the advisability of planning in advance as one of the devices for making work more regular, but what such planning

actually implies is not fully realized except by the production executive or the industrial engineer. Some people fancy it means merely that the employer spends an hour or two with a pencil and pad in hand and some records, and finally emerges with a schedule as to what will be done in the various months of the year. As a matter of fact, real planning is nothing like this. It is a highly technical process, associated only with the most intelligently developed management. We should like to give examples, illustrating this process, but space forbids our doing so. Suffice it to say that the process is involved and only to be tried after careful consideration.

As we have said before, these are the three outstanding ways of meeting the problem of manufacturing instability, i. e., by concentrating upon the distributive side of the business, by introducing supplementary lines and by manufacturing for stock, which includes also a more careful systematization of production methods. Oftentimes a combination of all these factors is necessary or, because of the peculiar type of business, none of them are present in any pronounced way. The following case is typical of such a combination:

In August, 1923, the Procter & Gamble Com-

pany of Cincinnati, Ohio, attracted wide attention by the announcement that it had made a guarantee of 48 weeks of employment each year to its regular employees. Such a guarantee is significant, for it shows that the management of the company thinks it has found a way of overcoming unemployment. Otherwise, it would not have dared to take such a step.

The Company's business consists mainly of manufacturing and selling soap advertised under different names, of which the best known is Ivory Soap. The Company found that its sales had marked fluctuations, yet it felt that there was not much variation in the daily consumption of its products by the ultimate consumer. It, therefore, sought the cause of these fluctuations in jobbing sales which were so much greater than in the ultimate retail sales. It analyzed the records of its total annual sales and found that instead of wide variations from year to year these sales showed fairly regular increases. The total demand for soap in any year appeared to be predictable and the Company found that the fluctuations in demand within any period were caused largely by the speculative methods of the jobbers, who ordered too much when they sensed a rise in price and held off more than was necessary when they thought the price would fall.

To reduce the effect of this kind of purchasing, the Company changed the method of distribution in some of its territories from jobbers to direct selling, so that it now sells direct to the retailer in a substantial part of its trade.

This change in the method of distribution is of fundamental importance so far as the results achieved are concerned. Previous to the adoption of the direct selling plan it frequently occurred that jobbers purchased so heavily at certain seasons of the year that the factories had to be operated at high speed for several months. The natural reaction would then follow. Thousands of employees would be laid off, with the usual wrench which always accompanies such labor fluctuations.

According to a statement of the firm, the direct selling policy is one of the main factors which has brought about an even flow of business, reduced the range between peaks and valleys in the sales chart, and made it possible for the plants and offices to be operated at practically the same speed the year round.

Having brought the conditions of demand somewhat under control, an attempt was made to predict the sales for a limited period and to lay out production evenly with this estimate as a working guide. This method proved quite work-

able. With the knowledge which the company has of its business, an accurate estimate is made in advance for six months at a time. Using this total estimate as a basis, daily production is laid out proportionately. It should be borne in mind that the comparatively few products made and the skillful advertising of its standard brands, mainly Ivory Soap, has been one of the chief factors in making possible the estimate of sales which the Procter & Gamble Company uses so effectively. Actual scheduling of the total amount required of each of the different brands is done by the middle of each month for the entire following month, and, if there is any error in the amount produced in the preceding month, it is corrected.

As the daily and monthly production differs widely from the actual daily and monthly sales, several devices had to be adopted to improve this situation. The dealers had to be educated to order in such a way that deliveries could be made upon an approximately equal monthly basis. Each dealer's order is taken for whatever quantity he wishes, but the delivery of the goods to him is made in several shipments as he needs the stock for sale. The dealers have been found ready to coöperate in this respect, for they are thus saved the investment and storage of unnec-

essary stocks, while the company finds it possible to spread production more evenly instead of operating on a sharp peak load basis.

Within any six-month period the differences in demand from month to month nevertheless remain. But the six months' estimate of the total output required has made it possible for the firm to produce for stock, and it warehouses large quantities until the demand picks up. During the months of dull demand production is in excess because soap is being prepared for a future peak load of demand; during the time of large sales, production may be much below demand because an ample supply has been accumulated for just such an occasion. There is thus a large variation in the amount shipped in some months as against others but not in production or employment.

Col. William C. Procter, president of the Company, is convinced that similar results may be achieved in other industries. He states: "I do not think there is anything peculiar in the soap business that makes such a plan more adaptable to it than to any other industry. I believe that in the very great majority of industries the average annual consumption is approximately the same, without much fluctuation from year to year, and that the problem of providing for the

distribution and warehousing is not a difficult one to work out if study is centered upon the special industry."

The firm tried out the system upon which it is operating for two and a half years. It found during this period that it had no difficulty in maintaining regular production. Aside from a two weeks' shut-down every year, required to overhaul the plant, the factories have been in continuous operation since the system was adopted. Having achieved substantial regularity of employment, the Company was encouraged to go a step further and to provide an actual guarantee of employment to those of its workers who came within certain qualifications. Some 5,500 employees in plants and offices located in thirty cities of the United States are now within the scope of the plan.

The effect of the plan, as far as the employees are concerned, is to reduce to the minimum the fear of unemployment upon the part of the regular employees. For some time the Company has endeavored to inculcate thrift by urging its employees to join a profit-sharing plan which it is conducting and for which all receiving less than $2,000 a year are eligible when they have been with the firm for six months. The substance of the employment guarantee is that

all employees who are participating in this profit-sharing plan are given a guarantee of full pay for forty-eight weeks in each calendar year, less only time lost by reason of the customary holiday closing or through fire, flood, national strikes or other extreme emergency. The right to transfer an employee within the plant is reserved to the firm. In the case of temporary transfers the firm pays the worker his regular wage at his usual job. In the case of permanent transfers the worker is given the wage of the new job, but is promised an opportunity to work at his regular job when an opening occurs. Employees who have been with the firm less than six months are not protected as yet, but the plan is new and still in its experimental stage.

The benefits of the plan to the industry and to the firm are many. Not all of these may be measured in dollars and cents for, as Col. Procter states: "The regularity of operation with contented and loyal employees has an economic value hard to define."

In the case of those concerns which do not depend upon a manufacturing plant for their operation there is still an opportunity to partially control this seasonal problem. Take, for instance, the situation in the building industry. An investigation of this situation has recently

been made by a standing committee appointed at the time of President Harding's Conference on Unemployment.[1] The report of this Committee shows that the construction industry, like other industries, suffers from periodic tidal waves. Every year there is a tremendous ebb and flow of activity. During the winter months, beginning with December, there is comparatively little construction going on. With the approach of summer—along in April, May and June—a period of feverish activity sets in that lasts all summer and culminates just before the fateful moving day on October 1st. The result is bad for everyone. It is always a feast or a famine in this industry. In the busy season there is a shortage of labor and supplies, overtime must be paid, prices are forced up, work is delayed. In the slack season it is just the other way. Unemployment is prevalent, plants and machinery are idle, overhead costs mount up and labor turnover is increased.

The ramifications of these troubles are far-reaching. In the first place, the construction industry is the balance wheel of American industry. The value of building construction

[1] See "Seasonal Operation in the Construction Industries." Published under the auspices of the President's Committee on Unemployment, Ernest T. Trigg, Chairman, by McGraw-Hill Publishing Co.

amounts to more than $5,000,000,000 a year, while the number of employees engaged in construction, together with those in the material producing industries dependent upon building, runs into the millions. When the balance wheel does not balance, but careens from slack to busy seasons of the year, the results are felt throughout the entire business structure of the country.

"Activity in Construction," says the report of the Committee, "bears a close relation to general industrial conditions. The construction and equipment of new buildings result not only in the employment of building trades labor but in the production of lumber, cement, iron and steel products, brick, sand and gravel, lime, hardware, paint, electrical equipment, furniture, textiles, and a variety of other materials. If building falls off, there is bound to be a slackening in many other lines of industry, resulting in unemployment, decreasing the purchasing power of employees, and further depression. Thus the ebb and flow in the demand for construction affect the economic stability of the country to a large degree."

Perhaps the most dramatic evil concerns labor. People complain about wages in the construction trades. Scales of $10.00 a day and more have come to be a notorious cause for faultfinding

among business men and property owners. These ten-dollar wage scales should be considered not so much evidence of cupidity as the inevitable necessities of chronic unemployment. The Committee has found that building trades workers in most American cities are out of work, through no fault of their own, at least three months in every year during normal times. They are fully employed for only three to five months. In an average year these workmen must be paid enough to support themselves and their families for twelve months on wages received for a total of seven to ten months' work. The labor problem, however, is only half the story. "Contractors and building supply dealers," says the Committee, "must maintain establishments big enough to handle a large amount of work during four or five months. These establishments are practically idle during the last three months and are operating on only a fraction of their capacity during the rest of the year. Building material manufacturers also have to maintain, unnecessarily, a large plant and equipment or else stock up materials during dull seasons in order to meet peak demands. This, of course, adds to the cost of their product. Architects find their office work crowded largely into the first six months of the year, although

their field work is often active for some months later. Intermittent employment conditions keep young men from taking up the building trade. All this involves waste and the public pays for it."

The most effective part of the Committee's report is not so much its analysis of the evils of construction by the tidal wave method, but the conclusion that the tides are unnecessarily high and can be made much less pronounced by human foresight and planning. Seasonal fluctuations in the building industry are due to habit and custom and not to necessity. We are treated to the spectacle of civilization causing itself untold waste of money, vast nervous irritation, and even acute suffering, not at all because it has to, but because it thinks it has to. [1]

Apparently, the chief cause for this erroneous idea has been the weather. Contractors and others have been imbued with the conviction that winter cold and storms make building operation either impossible or highly uneconomical. The Committee proceeds to riddle this idea with a broadside of statistics.

In the first place, the report says the winter weather is not as bad as it seems. Winter

[1] See an article on this subject by Evans Clark in the *New York Times*, September 14, 1924.

makes such a bad impression that its evils are magnified in our minds out of all proportion to the facts. Most people will say that it is freezing a good part of the time from the latter part of December to the first of March. This is largely imagination. The ten-year records of the United States Weather Bureau from New York City show that on an average there are only sixty-four days in each winter on which the temperature falls below freezing between the hours of 7 A. M. and 6 P. M. Of these, the records show, only fourteen can be termed severe. As for rain, snow or sleet, the facts are the same. There are, on the average, only seven days from November 1st to March 31st when work has to be stopped on account of "precipitation,"—as the Weather Bureau calls it.

The Committee proves, with facts and figures, not only that it is possible to carry on construction in winter, but that it is often more economical to do so. For one thing, labor is more efficient in winter. Both the cold and the shortage of work make for increased production over warm weather and a shortage of labor. Building materials are usually cheaper in the winter, when the demand for them is less. "With further developments in handling the work," says the

Committee, "and coöperation of the supply dealers through lower costs, made possible by the continuous operation of their plants, the cost in winter can be reduced appreciably below that of warm weather construction."

When it comes to remedies, the Committee puts the issue up to the interested parties in each locality. First of all, the report states that the local facts must be known—facts about weather conditions, employment, building materials, amount of construction carried on during each month and cost to the communities through the waste in fluctuation. It points out the necessity of having some local group which can serve as a clearing house for information on seasonal building activity, and, if possible, one which can predict, in a general way, a few months ahead whether employment is likely to vary from the normal. Once the facts are known, action depends, first, upon those directly concerned with construction—general contractors, real estate men, architects, engineers, building material manufacturers, labor organizations, public utility concerns, home-owners, and public officials. When those concerned see the situation as it is each one can do his part.

The home-owner can have his painting, paperhanging, plumbing, masonry and carpentry

work done in the slack season from December to April and his heating repairs made in the summer lull. Architects, through their contact with the owners during the period which precedes the letting of the contract, can advise their clients to build in a season which levels down the fluctuation in activity. The general contractor has a direct contact with owners, engineers and architects. By intensive selling methods he can throw more work into the dull period and relieve the seasonal congestion.

Sub-contractors and labor organizations can do a great deal through advertising and general educational work. Painting contractors in Syracuse, for example, have run page advertisements in the newspapers urging the public to "Lengthen the painting season—Help the painter with profit to yourself." The Atlantic City Building Trades Council issued a pamphlet describing the advantages of ironing out the building curve, and the Philadelphia Bricklayers ran advertisements in the same vein.

Public officials, backed by public opinion, can do a great deal. The Committee sent a questionnaire to engineers of all parts of the country asking them whether public improvements in their localities had been undertaken in the peak of the building season. Of two hundred answers

received, there were 192 which said "yes." "It is equally possible and desirable," the Committee states, "that public works be planned with special regard to season conditions and that all work which is not urgently required be held up until the peak season is past or started early enough to take advantage of the mid-winter slump."

The abolition of the common leasing date is one of the most important reforms that can be made. In New York the October 1st leasing date is said to have encouraged the general state of feverish activity which has characterized building there during the summer months of the last few years. The common leasing date increases the peak in the business of the real estate broker, telephone company, gas company, electric light company and storage warehouse company. Public service companies are burdened with the removal and installation of meters all at one time. The storage warehouse companies have a period of feverish activity during which they have to add to their force and for which they have to maintain extra capacity and equipment. During certain seasons of the year much of this equipment is idle. The public not only pays the extra high charges for moving during the busy weeks, but also pays for the time that the equipment is idle. The Committee definitely

urges that steps be taken to apply the "stagger" principle to lease expiration dates so that three days, for instance, be designated instead of one—September 1st for low rental property, October 1st for medium rental property, and November 1st for high rental houses.

That the proposals of the Committee deserve to be taken seriously is attested by the standing of the persons and concerns associated in compiling this report. Under the chairmanship of Ernest T. Trigg, of John Lucas & Co., the Committee includes such men as John W. Blodgett, president of the National Lumber Manufacturers' Association; John Donlin, president of the Building Trades Department of the American Federation of Labor; L. F. Eppich, president of the National Association of Real Estate Boards; J. A. House, president of the Guardian Savings and Trust Company, and William Stanley Parker, vice-president of the American Society of Architects. Contributions of funds and services were received from the American Federation of Labor, the American Telephone & Telegraph Company, eight bureaus of the United States Government and associations representing the lumber, paint, slate, tile, brick and contracting industries.

All this information is sufficient, we think, to show that among a large number of concerns "the slump bugaboo" is recognized as an evil that can be reduced. It is not necessarily an act of Divine Providence. It is a problem to be faced and worked out, like any other business problem, with intelligence and persistence. Seasonal slumps and peaks of business may be a necessary aspect of industry but not even to attempt to mitigate their severity seems like overlooking a plain opportunity. Such an ostrich-like course is bound to be costly, not only to employees but to management and stockholders as well. Socially the problem is one of the great problems of our times. To aid in solving it is to help the cause of social service quite as effectively as much more obvious philanthropic effort, and it is the type of effort which should appeal to practical business men.

2. *Casual Unemployment*

This type of unemployment is associated with extremely irregular trades. It is the unemployment of the man who is hired by the day. Casual labor is used in greater or less degree almost universally, from the housewife who

calls for a man to clean out the cellar or pull out some weeds, to the firm which calls upon a score of men to help unload a shipment of raw material. The longshoreman, who depends for his job on the arrival of a ship and who is hired anew at a different dock every time a vessel arrives or departs, furnishes a typical example of an occupation that is essentially casual at present but which can be stabilized by good business management. The uncertain movement of ships apparently presents the most justified case for the use of casual labor by individual waterfront owners. Alongshore the loading and unloading of ships shows extreme fluctuations of demand for labor, occurring not only cyclically and seasonally as in other trades but day by day and hour by hour.

Another reason for using longshore work as an illustration is the fact that it is doubtful if the employers in any other industry in America have shown as little improvement in employment methods as this one, while in European countries, and particularly in England, marked progress has been made. Only one large American waterfront, Seattle, Washington, has come to public notice for its improved methods of using casual labor, and this center has made such an excellent

job of solving the problem that it shows clearly what needs to be done. Before outlining the Seattle plan it might be well to visualize the chaotic conditions of the docks.

We find that the conditions are about the same to-day as they were in 1910 and 1911 when Mr. Charles B. Barnes made an intensive study of the methods of hiring labor on the waterfront. In this report he states: "The hours of hiring for the beginning of work on a ship vary with the time of her arrival. . . . The entire hiring of the port is based on the system of hourly employment. The longshoreman is on a more casual basis than the ordinary day laborer, who, when he is hired, is at least assured of a day's work. After work has begun, men are knocked off and rehired at any hour according to the demands of the work. . . . If freight is delayed, or any other setback occurs, the foremen knock off the men temporarily. A saving of even fifteen minutes' pay of several hundred men is a considerable item to the company. Sometimes men are told to "go to the corner," meaning the far side of the street—really the saloon—until they are wanted. They may be kept waiting all day, but dare not leave and seek work elsewhere for fear of gaining the ill will of the boss; for each

foreman has his own following and the necessity for standing well with him is, therefore, a consideration." [1]

The irregularity brings with it periods of work of exhausting length when a ship does arrive. After they work that way, many men are obliged to lay off for a day or two, and sometimes the strain has been such that some have to lay off for a week. Yet the uncertainty of the employment is such that the men dare not let the work go when they do get the chance, no matter how severe the circumstances attending it.

Practically each dock has its own labor reserve, waiting and loafing until there is work to do. For many reasons, some of which have already been mentioned, many workers do not apply for jobs at other docks. The more energetic do, but these are at a disadvantage because the hiring at different docks is frequently done at the same time. A worker on hand at eight o'clock at Dock A waits until, let us say, 8.15 before he is turned down. When he arrives at Dock B, which also began to hire its men at eight o'clock, he is too late. Incidentally, the longshoreman who has worked at four or five different docks in a single week has a problem on his hands when he

[1] Charles B. Barnes, "The Longshoreman," p. 57. Published by the Russell Sage Foundation.

starts collecting his wages on pay-day. He may be busy hurrying from one pay-office to another in collecting and may waste a whole morning at it.

If all of these docks had peak loads of labor at the same time the problem of "decasualizing" the beaches would represent a different aspect from what it does now. The most significant feature is that as all the docks do not have ships in the harbor at the same time, *the aggregate of labor reserves* which the individual docks have built up is far greater than the maximum need of the docks as a whole. If the dock employers would combine in the use of a labor force, transferred between docks as needed, the number of men hanging around the docks would be considerably reduced and these would be glad to work more regularly. This is exactly what was done under the famous Liverpool scheme and in other European ports, and it is the plan under which a majority of the waterfront employers and longshoremen at Seattle are working.

The plan of the Seattle Waterfront Employers Association has its origin in a plan of joint representation established in September, 1920, replacing an "open shop" policy which had been in existence for five months, during which individual bargaining had been in vogue. Under the

new plan of Joint Organization a Joint Committee on Employment was appointed representing the score or more shipping concerns on the waterfront and the longshoremen and truckers. This committee was to work out plans for central registration, central hiring and other measures. One of the first things done was to register all those working at the various docks that were part of the scheme. Later the employers were asked to organize on each dock for regular work as many company gangs as they could employ reasonably steadily on their individual docks. Hiring by the foremen at these docks was then limited to calls upon a central dispatching station, known as the Dispatching Hall. Here all the registered men not in company gangs were organized into "hall gangs," and made available wherever they were required on the waterfront. Other individuals were retained on a reserve list for filling in where needed.

When the plan was first begun, there was a great surplus of men at the waterfront. To squeeze out the excess reserve, registration of new men stopped, and then the ranks were culled of "floaters," others not interested in regular work and hopeless incompetents. By this process the elimination of the surplus was effected over a period of many months without unneces-

sary pain and in time the desirable condition of "no surplus" was attained.[1]

Many advantages have been gained by the plan. The greater regularity of work has considerably augmented the men's wages. Centralized paying has made the collection of their earnings less of a bother. A better morale than ever in the past is said to be in existence, and there have been no strikes. Intelligent constructive action by the employers in coöperation with each other has eliminated the principal evils in connection with this type of unemployment.

Another great breeder of casual unemployment is the farm.[2] The unsteadiness of farm work not only deters men from taking up farm labor as an occupation, but encourages farmers to try to get all they can out of the men they employ temporarily. Since the farmer is not trying to make the man like his place and remain there, he is apt to demand longer hours of labor and more work than he would from a man whom he planned to hold permanently. On the average, he does not provide as good sleeping accommodations as he would for steady help, and often fails to provide as good board. An inferior

[1] See "The Seattle Longshore Log." Published by the Seattle Waterfront Employers Association.

[2] See D. D. Lescohier: "The Labor Market." The Macmillan Co.

class of transient laborers who go to the farms under existing conditions are an excuse in the farmer's mind for the perpetuation of such conditions. The situation works in a circle: the farm gets a poor class of help because of its unsteady demand for men, and deficient working conditions, and it continues the unsteady demand and those labor conditions because it gets a poor class of help.

Agriculture's demand for labor, like that of the urban industries, is of three main types: a demand for steady or year-round help; a demand for busy season help and a demand for casual or short-time help. The first of these types is found typically on dairy farms, and where diversified crops combined with stock raising makes continuity of employment possible. The second, or crop season demand consists of offers of farm employment during the crop growing season. In almost every section of the country there is a vigorous call each spring for farm hands to work until the crop has been gathered and either marketed or stored. The third, or casual, demand is found at the rush seasons when farmers want extra help for days or weeks. Each spring there is a strong call for skilled men to work but a short time during seeding. Later

in the season the farm develops short-time demands for help for haying, harvesting, threshing, corn husking, potato picking, fruit picking and packing, and other rush season needs, but these require only a small percentage of skilled workers. Much of the work can be done by ablebodied persons after brief instruction. This casual type of demand resembles the contractors' offer of employment on specific jobs to terminate with the completion of the job, and the manufacturer's or merchant's employment of skilled help for short rush periods.

Farmers whose choice of crops and methods of management spread their work rather evenly through the year keep steady hands; those who diversify their field crops and put in a considerable acreage of corn, potatoes, sugar beet, truck or other crops requiring cultivation need season hands; while those who grow hay, small grains and fruits are apt to need short-time, or casual help. But crop diversification and careful planning can materially reduce the demand for seasonal help and increase the demand for steady help. We realize, of course, that absolute uniformity of labor needs throughout the year cannot be attained. Cotton and fruit picking, the small grain harvest, and similar agricultural

concentrations of work are certain to produce rush periods in various sections of the country which will compel the employment of extra help.

The fact that even large farms employ but a small number of men, as compared with the number employed in what the cities call a small manufacturing business, has caused farmers to overlook the necessity of studying the labor aspects of their farm labor problem. They have not realized that the farm labor situation is but a part of the general labor situation. They have not recognized the fact that agriculture is competing with urban industries for its labor. It is now important to emphasize that the farmer, as well as any other employer, has reached the time in our national development when he must adapt himself to the conditions in the labor market, and employ his help on a modern business basis. Recent Bulletins of the United States Department of Agriculture have demonstrated that much improvement is practicable.[1]

[1] The titles of these bulletins are: "Harvest Labor Problems in the Wheat Belt," by D. D. Lescohier, Bulletin 1120, April, 1922. "Conditions affecting the demand for Harvest Labor in the Wheat Belt," by D. D. Lescohier, Bulletin 1230, April, 1924. "Sources of Supply and Conditions of Unemployment of Harvest Labor in the Wheat Belt," by D. D. Lescohier, Bulletin 1211, May, 1924.

3. *Cyclical Unemployment*

The intelligent industrial executive need hardly be reminded that there is an ebb and flow in demand and in other business factors which, taken over a sufficiently long period of years, reveals a recurrent cyclical movement of business prosperity. This cycle is, however, irregular and to all appearances uncertain. Moreover, slumps in markets do not necessarily take place in all industries during the same years. There seems to be a special cycle to each industry. The practical question which concerns the business man is whether any method has been evolved by which he can acquire advance notice of an impending change, so that at least he may be prepared for it.

The only answer available at present (and it is by no means an infallible one) is statistical research. It is still in its experimental stage. But we can say that the firms which have given most study to this instrument of possible control are enthusiastic with regard to the practical results it has brought to them. And instead of an abatement of interest since the last cyclical depression, there has been an ever increasing amount of attention to cyclical research by progressive firms, small and large.

The best known example in this field, of course, is the Dennison Manufacturing Company, of Framingham, Mass., manufacturers of a varied line of goods sold by stationers, such as gummed labels, shipping tags, crêpe paper articles, paper novelties, sealing wax, and also fine boxes for jewellers. At the risk of repeating what the reader may already have read in business magazines, the remarkable success of this firm in anticipating the depression of 1920–1921, and of overcoming its effects, should be recounted.

For many years the officers of the Dennison Company have interested themselves in the business cycle. The statistical department of the firm has engaged in a large amount of analysis of business statistics, including its own sales, to discover some basis for predicting changes in the course of business. This research is intended to aid in executive decision on many phases of the Company's activities, viz: purchasing, expansion, credit, etc., and, of course, sales. Having based its business policy on ever-recurring changes in demand rather than on uninterrupted eras of good business, the Company was apprehensive rather than optimistic during the boom period early in 1920. For although the business world seemed full of confidence as to the outlook, statistical indications suggested

that a depression was due in the fall.

Acting upon this premise, the Company prepared its sales managers and salesmen generally for the approach of a greater sales resistance. Although the orders on hand at that time greatly exceeded factory capacity, the Company added new salesmen in order to have them already trained when more intensive activity would be necessary in the fall. Several other polices of the firm were based on this anticipation of a change in conditions. In accord with a five year advertising plan which the firm had observed for several years, less advertising was done during the boom period in order that more money could be put into this kind of sales promotion when orders would be harder to get. Also several ideas as to new products that gave promise of augmenting sales were promoted only mildly so that at the proper time expansion into the new lines would serve to make up for a decrease of demand in other lines.

As the reader knows, the depression of 1920–1921 made its presence widely felt by the fall of 1920. Men who had gone about optimistically assuring everybody that the "good times" would never end were frantically searching for means of deliverance. Despite this atmosphere the Dennison Company could afford to remain calm. It

had a sales force in 1921 that not only was prepared with plans, but was about 30 per cent larger in personnel than it had been in the previous year. Advertising appropriations saved up by former thriftiness were increased heavily. The new ideas held in abeyance for the emergency were released for vigorous promotion.

One of these ideas was the use of crêpe paper for paper hats to be worn on the beaches. This had a great vogue, for a hat could be made to match every skirt! The crêpe paper factory in 1921 was called upon to produce more than in any previous year, and for this the hat idea was considered largely responsible. Another idea was the use of sealing wax in bead ornaments. Sealing wax was likewise necessary in the making of crêpe paper hats, so the wax department also had overtime work. One might go into further details with regard to the advantages that the firm reaped from its study of the business cycle. The most important for the purposes of the present discussion is this: *In the general depression year of 1921 the average number of workers on the payroll of the firm was only four per cent less than the number in the boom year of 1920.*

Other firms have gained real success in meeting the situation presented by business depressions.

The International Shoe Company, for example, which has been interested in this subject for years, increased the number of pairs of shoes in 1921 by 20% over any previous year. The Walworth Manufacturing Company, manufacturers of pipe fittings, valves and tools, which established a Planning and Statistics Section a few years ago, also reports results of utmost value to its business. Detailed analyses of the sales of the Company were undertaken with reference to available statistics. The aim was to discover, if possible, a change in the conditions of general business that would give a definite indication as to the nature of the change to be expected in the Company's own business. Significant conclusions have already been secured. Their practical utility in providing regular work may be summarized in the following excerpt from a statement by Mr. Howard Coonley, President of the firm:—

"As an illustration of how valuable such forecasting has been to us, it may be here mentioned that our estimates of sales for 1922 were figured at about 42% increase over 1921. As a matter of fact, . . . our sales were within .5% of the forecast amount." [1]

[1] *Harvard Business Review*, July, 1923. The experience of the Walworth Co. is described in detail in H. B. Vanderblue's "Problems in Business Economics" and the methods by which any employer may conduct such research are described in the same book, Chapter XI and XII.

The reader may draw his own conclusions as to the need of basing business policies on the premise of recurrent cycles that ought to be watched. He may be justified in finding that this "doesn't apply to my own business," but only if he has exhausted the possibilities of cyclical research, not if he has not tried it. Of course, as we have already pointed out (page 51), the methods of preparing statistical material to anticipate booms and depressions are only partly developed. The ability to look into the future still depends a good deal upon the active executive's intuitive grasp of the situation, upon his penetration and ability to analyze facts. In the light of such experience as we have been able to gather, the systematic use and development of statistics affecting markets of each particular enterprise and industry cannot be otherwise than of great assistance. Incidentally, many of the practices suggested earlier in this chapter as methods of meeting the problem of seasonal unemployment, such as adding supplementary lines and manufacturing for stock, often prove to be the most effective means of mitigating the difficulties which arise during the cyclical depression.

All these facts are here presented with an obvious purpose. It is to show that certain

employers have recognized the principle of stabilizing their industries just as definitely as individuals have recognized better known principles such as "Safety First," "Do Your Christmas Shopping Early," "A Sane Fourth of July," and the like. The point we are trying to make is that, because of its social and economic importance, this subject should take first place in the daily thinking of progressive men. When employers become convinced of its value, the habit of stabilizing will be incorporated in their business practice just as easily and completely as the habit of filing, of using typewriters, of traveling specialty salesmen, and a host of other business habits too numerous to mention.

This habit of stabilizing cannot be adopted without effort. It requires thorough study and an honest searching of an executive's mind so that he may determine for himself whether his business is susceptible of improvment through greater regularity of production. In helping such an executive to arrive at some definite conclusions about this problem it might be wise for him to answer to himself such questions as these:—

1. Is our business seasonal?
2. If so, at what seasons of the year is our business most slack?

3. What measures can we take to speed up our business during these slack seasons?
   (a) Can we, for instance, stretch out our sales peaks over a longer number of months
      (1) by advertising?
      (2) by some device of salesmanship?
      (3) by some device of distribution?
      (4) by price discounts, etc.?
   (b) Can we introduce a new product that will sell well in our slack season and yet fit into our general business?
   (c) Can we adapt our present products for other uses than those now in use and so stretch out the buying season?
   (d) Can we manufacture for stock during off seasons?
4. What changes will a stabilizing plan require in
   (a) Manufacturiug?
   (b) Purchasing?
   (c) Financing?
   (d) Office personnel?
5. What firms have adopted stabilizing methods with effective results?
6. To whom can I apply, if necessary, for further advice and information upon this subject?

It is manifestly impossible for the authors of this book to attempt to answer for any executive the first four questions outlined above. As to

questions 5 and 6, however, the information which we have collected may be of interest. We give below, by industries, a number of concerns which have worked successfully along stabilizing lines. This list is not meant to be exhaustive. It merely includes some of those companies whose efforts toward securing more regular production have come to our attention:

Agricultural Implements:
- Deere & Co., Moline, Illinois
- International Harvester Co., Chicago, Ill.

Associations:
- American Face Brick Association, Chicago, Ill.
- California Walnut Growers' Association, San Francisco, Cal.
- Hollow Building Tile Ass'n, Chicago, Ill.
- National Brick Manufacturers' Ass'n, Baltimore, Md.
- Sun Maid Raisin Growers' Ass'n, San Francisco, Cal.

Builders:
- Aberthaw Construction Co., Boston, Mass.
- Everett Winters Co., Detroit, Mich.
- Fleischer Construction Co., Fort Wayne, Ind.
- George A. Fuller Co., New York, N. Y.
- Thomas Haverty Co., Los Angeles, Cal.
- Inglenook Construction Co., Birmingham, Ala.
- Stack Construction Co., Duluth, Minn.

William Steele & Sons, Philadelphia, Pa.
Stone and Webster, Boston, Mass.
Turner Construction Co., New York, N. Y.

Automobiles:

Dodge Brothers, Detroit, Mich.
Ford Motor Company, Detroit, Mich.
General Motors Co., Detroit, Mich.
Nash Motor Company, Kenosha, Wis.
Packard Motor Co., Detroit, Mich.
Pierce Arrow Motor Car Co., Buffalo, N. Y.
Stutz Motor Car Company, Indianapolis, Ind.
White Motor Co., Detroit, Mich.

Building Materials:

Albion Brick Co., Albion, Ill.
American Cast Iron Pipe Co., Birmingham, Ala.
American Radiator Co., New York N. Y.
Art Metal Construction Co., Jamestown, N. Y.
Atlas Portland Cement Company, New York, N. Y.
Johns-Mansville, Inc., New York, N. Y.
Kohler Co., Kohler, Wis.
Miller Lock Co., Philadelphia, Pa.
Pittsburg Plate Glass Co., Pittsburgh, Pa.
Truscan Steel Co., Youngstown, Ohio.

Clocks:

Ansonia Clock Co., New York, N. Y.
Western Clock Co., La Salle, Ill.

Clothing—Men's & Women's:

B. V. D. Underwear Co., New York, N. Y.
Henry A. Dix & Sons Co., Passaic, N. J.

Earl & Wilson Co., Troy, N. Y.
Hart, Schaffner & Marx, and practically all other clothing manufacturers in Chicago.
Hickey-Freeman Co., Rochester, N. Y.
Joseph & Feiss Co., Cleveland, Ohio.
Knox Hat Co., Brooklyn, N. Y.
McCallum Hosiery Co., Northampton, Mass.
Markowitz Co., New York, N. Y.
A. Nash Company, Cincinnati, Ohio.
National Cloak & Suit Co., New York, N. Y.
Onyx Hosiery, Dover, N. J.
Printz-Biederman Co., Cleveland, Ohio.
Sweet, Orr & Co., New York, N. Y.

Electrical Supplies:

General Electric Co., Schenectady, N. Y.
Western Electric Co., New York, N. Y.

Food Products:

Aunt Jemima Mills Co., St. Joseph, Mo.
Beechnut Packing Co., Canajoharie, N. Y.
Calumet Baking Powder Co., Chicago, Ill.
Campbell Soup Co., Camden, N. J.
Columbia Conserve Co., Indianapolis, Ind.
Cudahy Bros. Co., Cudahy, Wis.
William Goldman, New York, N. Y.
H. J. Heintz Co., Pittsburgh, Pa.
The Hills Brothers Co., New York, N. Y.
Swift & Co., Chicago, Ill.
Tao Tea Co., New York, N. Y.

Machinery Products:

American Blower Co., Detroit, Mich.

Gervin Machine Co., New York, N. Y.
Marion Steam Shovel Co., Marion, N. Y.
Walworth Mfg. Co., New York, N. Y.

Mail Order Companies:

Montgomery, Ward & Co., Chicago, Ill.
Sears, Roebuck & Co., Chicago, Ill.

Mining:

Tennessee Copper & Chemical Co., New York, N. Y.
United Verde Copper Co., New York, N. Y.

Office & Store Equipment:

Baker-Vawter Co., Benton Harbor, Mich.
Burroughs Adding Machine Co., Detroit, Mich.
Corona Typewriter Co., Groton, N. Y.
Elliott-Fisher Co., Harrisburg, Pa.
National Cash Register Co., Dayton, O.
Todd Protectograph Co., Rochester, N. Y.
Yawman & Erbe Mfg. Co., Rochester, N. Y.
Young Typewriter Co., Chicago, Ill.

Oil:

Standard Oil Company, New York, N. Y.
The Texas Company, New York, N. Y.

Paints:

Sherwin-Williams Paint Co., Newark, N. J.

Paper:

American Writing Paper Co., Holyoke, Mass.
L. I. Brown Paper Co., Adams, Mass.
B. D. Rising Paper Co., Housatonic, Mass.
Strathmore Paper Co., Mittineague, Mass.

Paper Products:

Dennison Mfg. Co., Framingham, Mass.

Public Utilities:

American Telephone & Telegraph Co., New York, N. Y.

Railroads:

Delaware & Hudson Co., Albany, N. Y.

Shoes:

Endicott-Johnson Shoe Co., Endicott, N. Y.

International Shoe Co., St. Louis, Mo.

Morse & Burt Co., Brooklyn, N. Y.

Soaps:

Colgate & Co., Jersey City, N. J.

Procter & Gamble Co., Cincinnati, Ohio.

Textile Manufacturers:

Dutchess Mfg. Co., Poughkeepsie, N. Y.

Miscellaneous:

Barrett-Crooks Co., Chicago, Ill.

Brown-Morse Co., Muskegon, Mich.

Cary Safe Co., Buffalo, N. Y.

Coleman Lamp Co., Chicago, Ill.

Eastman Kodak Co., Rochester, N. Y.

H. W. Gossard Co., Chicago, Ill.

Graff-Underwood Co., Somerville, Mass.

Hall & McChesney, Inc., Syracuse, N. Y.

Hazel Atlas Glass Co., Washington, Pa.

S. C. Johnson Co., Racine, Wis.

Kemp & Beattey, New York, N. Y.

Peaselee-Gaulbert Co., Louisville, Ky.

Postage Meter Co., Chicago, Ill.

Rand-McNally Co., Chicago, Ill.
Shaw-Walker Co., Muskegon, Mich.
George W. Smith & Co., Philadelphia, Pa.
Spengler-Loomis Mfg. Co., Chicago, Ill.
Van Dorn Iron Works Co., Cleveland, Ohio.
L. E. Waterman Co., New York, N. Y.
Weiss Mfg. Co., Monroe, Mich.

A partial list of those organizations which are able to give expert advice or information upon the subject of business stabilization are as follows:

American Management Ass'n, 20 Vesey Street, New York, N. Y.
National Industrial Conference Board, 247 Park Ave., New York.
Metropolitan Life Insurance Co., Policy Holders' Service Bureau, 1 Madison Ave., New York.
Ass'n of Industrial Engineers, 608 South Dearborn St., Chicago.
Federated American Engineering Societies, 29 West 39th Street, New York.

The only drawback to individual effort is not to be found in the effectiveness of the work itself but in the fact that it cannot be applied in any broad way to the whole field of industry. Broad-minded employers, in whose plants conditions are much better than the average, are

willing to try to improve the already bearable situation in their factories. Narrow-minded, exploiting employers, in whose plants working conditions are usually of the worst, are not willing to experiment at all. We have, as a result, good conditions made better at the same time that bad conditions and unfair treatment grow worse.

Private efforts, therefore, no matter how significant or encouraging they may be, still remain individual as far as a solution of the problem of unemployment in a large way is concerned. Before discussing how these limitations have been met by the coöperation of employers in the same industry, and in other ways, let us acquaint ourselves more fully with the facts of unemployment as it exists in the United States to-day.

CHAPTER III

THE FACTS OF UNEMPLOYMENT

CERTAIN facts concerning employment and unemployment have been so thoroughly proved that we can safely accept them as a basis for constructive policies. These facts are briefly as follows:

1. *Available Employment Increases Steadily*

The total amount of employment available for wage earners tends to increase year by year. Each decade finds the nation able to offer employment to a considerably larger population. The United States begins each year with a larger amount of capital; more miles of railroad track, more trains and steamships, automobiles and tractors; more and larger factories; better mining facilities and an enlarged capacity to turn out agricultural and raw materials. It starts each year with a larger population, which demands more products and furnishes more labor. It starts each year with more knowledge and with some advance in acquired skill and general technology.

If no disturbing factors entered into this situation, the volume of employment would expand steadily from year to year at a roughly predictable rate, with moderate fluctuations from year to year due to differences in the size and value of crops, weather conditions, international influences and similar modifying factors. Industry would keep practically all of our employable population quite steadily at work. Unemployment, under such conditions, would be confined to superannuated, crippled, sick, and otherwise unfit individuals; to those involved in labor disputes or thrown out of work by fires, failures and other calamities; to persons in the process of changing jobs or places of residence, or occupations; and to those temporarily laid off because of slack business in particular industries or plants—factors which we can hardly hope to eliminate completely from our economic system. The sharp seasonal and cyclical fluctuations which now cause more than three fourths of our unemployment would not occur.

2. *American Industry Most Unsteady*

But instead of being characteristically steady in the United States, employment is characteristically unsteady. The United States Bureau of

Labor Statistics, in a careful report on unemployment,[1] states that year in and year out, during the twenty years ending in 1918, unemployment was responsible for an *average loss* of sixty days each year by every wage earner in the United States—thirty days of complete unemployment and thirty days lost on account of part time work while on an employer's payroll. One fifth of the possible working time of our entire industrial population went to waste—in twenty years the equivalent of four years' work of, say, 15,000,000 people.

This loss was not evenly distributed, of course. In each year, millions of wage earners lost little or no time, while millions of others lost from one to several months. In some years, the unemployment average fell below sixty days; in others, it went much higher. The spring of 1920 saw work unusually plentiful; in 1921, unemployment was colossal. In some industries, such as bituminous coal mining, building, and clothing manufactures, the unemployment figures run particularly high. The bituminous coal miner is lucky when he works more than two days out

[1] "Industrial Unemployment." Ernest S. Bradford. Bulletin 310, *United States Bureau of Labor Statistics.*

Cf. also "The Unemployment Problem," Research Report #43, *National Industrial Conference Board.*

of three throughout the year. Building and garment workers are no better off.[1]

The Bureau of Labor Statistics figures, which show that part time employment, or under-employment, causes as much loss of time as unemployment, are rather surprising. International statistics of unemployment show that in dull periods American employers are apt, more than European, to lay off a part of their employees rather than to retain all or most of them on part time.[2] The National Bureau of Economic Research, after investigating the practices of employers in all parts of the United States during the depression of 1921, concluded that part time work is "not commonly resorted to by most employers." The practice of going on part time during slack periods is unquestionably spreading. Part time work provided by employers as an emergency during cyclical depressions to give some employment to wage earners who would otherwise be totally unemployed often reduces the total amount of unemployment. However, much of the part

[1] Cf. The Statistics of Employment and Unemployment in various nations published monthly in *The International Labour Review,* the official organ of the Labor Office of the League of Nations.

[2] Employment Hours and Earning in Prosperity and Depression, *National Bureau of Economic Research,* pp. 50, 53.

time work in the United States is of an altogether different type. There is a great deal of it which is a chronic condition in various industries. Some of it is due to machinery break-downs, temporary shortage of materials, lack of orders, car shortages, excessive heat or cold, and to other interruptions of production; some of it is due to the over-development or over-manning or seasonal habits of particular industries, such as the bituminous coal industry. Some of it is unavoidable; most of it is due to poor management. For instance, Sanford E. Thompson estimates that in the shoe industry "imperfect factory organization, showing itself particularly in congestion in and between departments, causes time wastes which range between 25% and 35% of the working time."[1]

A special investigation by the Bureau of Labor Statistics in 1915 found that 16.6% of the 647,394 wage earners covered were working part time and only 11.5% totally unemployed.[2] The Mayor's Unemployment Committee of Columbus, Ohio, found that in November, 1921, nearly as many wage earners of Columbus were on part time as were unemployed. The New York Department of Labor reported in Decem-

[1] *Waste in Industry*, page 133.

[2] Bulletin No. 195, *U. S. Bureau of Labor Statistics*, p. 6.

ber, 1921, that 24.1% of the 300,000 employees of 1,320 factories were working part time.

The official statistics of the several nations indicate that the flux of employment in the United States is more rapid and extreme than that of any other great nation.[1] England, Italy, and other European countries experience a larger amount of chronic unemployment but the United States produces more sudden changes in the numbers at work. The importance of the raw material industries of the United States is one reason for this difference. Another reason is the healthy and rapid development of this country. Over-investment and over-manning of many of our industries is probably even more important. The bituminous coal industry has a productive capacity 50% greater than its average annual output. The shoe industry has a capacity of 1,750,000 pairs a day and produces little more than half that number. The clothing industries could produce at least one half more product per year than they do. The United Typothetæ found that the printing industry in the various sections of the country was over-

[1] *The International Labour Review,* the *British Labour Gazette,* the *Monthly Labor Review* of the U. S. Bureau of Labor Statistics, and the labor market bulletins published monthly by New York, Massachusetts, Illinois and Wisconsin, furnish the statistics upon which this statement is based.

equipped from 50% to 150%, and that a consequent fluctuation of 50% in the number of employees at different seasons of the year is not unusual in the larger plants.[1]

The statistics of employment in the different industries also show that the range of employment from minimum numbers employed to maximum numbers is at least twice as high in many of our leading industries as in industry taken as a whole. When an industry concentrates 90% of its production into 60% of the year, it must have a larger number of men during its peak production than if the work were spread over the whole year, with the consequent result that it throws a large number of people out of work in the low months and retains for itself *the year round* an unnecessarily large number of people as its labor reserve. As industries stabilize, each can perform a given amount of work with a smaller number of people, and can release part of its labor reserve to other industries or utilize it for expansion. If bituminous coal production were stabilized to the same extent as anthracite, about 100,000 men would be set free for use in other industries. The metal manufacturing industries, because of irregular production, are using at least 100,000 more men than they would need

[1] *Waste in Industry*, p. 177.

to produce the same amount of products if they worked 300 days a year, or even a little less than 300 days. The clothing industries are using at least 75,000 more people than they would need if their highly seasonal production were overcome. Cotton and woolen textiles, shoe manufacturing and many other industries differ only in degree. Irregularity of production is wasting an enormous labor power in the United States.

3. *What causes Idleness?*

It is *lack of work,* not laziness, illness or strikes, *that is responsible for the major portion of wage earners' idleness.* The numbers of people employed fluctuates in harmony with the fluctuations of business. Our federal and state statistics of employment harmonize closely with statistics of production, of railroad ton miles, banking and of general business transacted. All available figures, British, European and American, unite in demonstrating the fact that unemployment is primarily a product of business conditions rather than of human nature.

Not many more persons are sick, disabled, delinquent or lazy in winter than in summer; and certainly no more in 1908, 1914, 1921 or 1924 than in intervening years, and yet, throughout Europe and America, the curves of employment

ordinarily show more people idle in January than in May; more idle in July than in September; and millions more persons employed some years than others. Four fifths of the unemployment of the United States is due to lack of work or of materials.[1] More than one half of the remainder is due to illness and accidents, while labor disputes are in most industries the least important cause of lost time. But seven of each sixty days lost are chargeable to physical disabilities, and only three or four days to strikes. Labor turnover appears to be more important as a force determining which individuals will be idle than as a determinant of the amount of unemployment. Unquestionably, labor turnover increases unemployment by increasing production costs and thereby decreasing sales, but its principal significance lies in its effects upon labor and plant efficiency, industrial morale, and labor costs.

The employment figures quoted throughout this discussion have been taken from official reports in which we are justified in reposing much confidence. The methods by which the Federal Bureau of Labor Statistics, and the statistical bureaus in charge of current employ-

[1] Cf. Bulletin 310 of *Bureau of Labor Statistics* and Research Report No. 43 of *National Industrial Conference Board.*

ment statistics in New York, Massachusetts, Illinois and Wisconsin are gathering, analyzing and publishing employment figures have been subjected to most rigid analysis by 18 members of the American Statistical Association, who have worked over them for the past three years. They have likewise withstood the critical analysis of the highly trained statisticians of the Bureau of Economic Research, the National Industrial Conference Board and several of the Federal Reserve Banks, and they are to-day accepted at face value by the leading statistical organizations of the country. Employers who coöperate with the governmental agencies which compile them are making available statistical information of great practical usefulness.

These figures are making it possible to measure the relative changes in business activity in each industry and in each section of the country. They show which industries are prospering or not prospering at a given time. They measure the extent to which the respective industries are affected by seasonal and business cycle forces. They indicate the relative growth and decline of the particular industries, and are becoming of major importance to business men watching the trends of business, to employment officials distributing labor, to

trade unionists deciding on policies, to vocational guidance experts directing youths into employment and to charity workers forecasting distress.

Unfortunately, many of the states have not yet started to publish the facts of employment regularly. Several have begun recently, but much of the country is still without adequate means of measuring its employment fluctuations. Only New York, Massachusetts and Wisconsin can furnish figures running back to the pre-war period. Much of our information for the earlier years had to be gleaned from intermittent and more or less fragmentary surveys made by the Federal government, some of the states and private organizations. Absolute accuracy cannot be claimed for conclusions drawn from the admittedly unsatisfactory data available, but we believe that the figures we have quoted are so well substantiated that we may give them our confidence.[1]

[1] A standard plan for the collection of employment statistics is now in operation in the U. S. Bureau of Labor Statistics, in New York, Massachusetts, Wisconsin, Illinois, Rhode Island, Iowa, Arkansas, and Oklahoma, and will probably soon be introduced in other states. The methods are substantially those used in New York for many years, though material improvements have been effected by the committee on statisticians mentioned above. The Statistical bureaus which gather these employment statistics make arrangements with representative concerns of all sizes and in all lines of business to report the number of their employees and total payroll for the pay periods which include the fifteenth day of each month. Great care is exercised in the

4. *The Story of Four Years*

The unemployment of 1921 is believed to have been the worst in the history of this country. It was widespread and long continued. One seventh of the wage earners employed in the fall of 1920 were idle a year later. In Detroit, for instance, 79 factories which employed 200,705 employees on March 31, 1920, had but 25,339 employees on their payrolls at the end of the year and but 88,572 in March, 1921. The unemployed in the United States numbered approximately 4,000,000 in 1921. During the winter of 1921–1922 they exceeded 5,000,000. Remembering that the majority of these had families dependent upon their earnings, and that millions of other wage earners were working part time throughout that winter, it is apparent that the incomes of at least 15,000,000 Americans were cut off or seriously impaired by unemployment during the winter of 1921–1922.

Gradual recovery began in the spring of 1922 and proceeded unsteadily throughout 1922 and

selection of the reporting concerns and in determining the number of reporting concerns in each industry to the end that these firms shall give a truly representative picture of employment and earning conditions in their industries and in the state. Employers can obtain these reports regularly by writing to the labor departments of the respective states and to the U. S. Bureau of Labor Statistics, Washington, D. C.

most of 1923. In November, 1923, a recession of business began which decreased the numbers employed throughout the winter and the first half of 1924. The New York Department of Labor reported that 200,000 less employees were on the factory payrolls of the state in July, 1924, than in July, 1923, and that a reduction of over 14% in the numbers employed had occurred since April. It said in August, 1924:

"Of the fifty-five separate divisions into which the factories of the state are classified, only eight had as many workers as in July, 1923. They were all making either building materials or food products."

The Illinois Labor Bulletin stated that the discharges of employees in July, 1924, added to those of the preceding eleven months had "reduced the level of factory operations to that of October, 1921."[1] August and September, 1924, witnessed the gradual beginnings of an upward trend of employment.

5. *Some Figures About Unemployment*

Though the indices of employment from 1920 to 1924 show constant fluctuations in the numbers of persons at work, it is probable that the total

[1] "*Illinois Labor Bulletin*," Aug. 1924, p. 2. (Published by Illinois Department of Labor.)

number unemployed has not fallen below 1,500,000 at any time since the fall of 1920. In 1921, the figures ranged from 3,000,000 to 5,000,000; in 1922, they moved downward from around 3,000,000 to a minimum somewhere near 2,000,000 and in the middle of 1923 fell below 2,000,000. The increase in the number of persons out of work which began in the fall of 1923 raised the figures to about two and a half millions by July, 1924. Three depressions, therefore, have been experienced since the war; in 1918, 1921 and 1924; and two periods of marked business activity, in 1919–20 and 1923.

In England, in the summer of 1924, the army of the unemployed had included from one eighth to one fourth of the nation's workers for more than four years continously. The number of unplaced applicants for work registered at the English and Scotch labor exchanges was below 200,000 throughout 1917 and 1918, but since 1921 has never fallen below 1,000,000. From May through July, 1921, it exceeded 2,000,000 continuously, and in May, 1924, had reached the lowest figures since 1920, 1,088,000. Roughly, ten idle men were on the employment office registers each day in 1921 for each unfilled job. While the number of registrations has undoubtedly been increased by the revision of the

unemployment insurance law in 1920, much of the increase is due to the severity of the depression.

The rest of the world has been carrying comparable burdens. Germany, by fiscal policies eventually suicidal, for a time dodged the crushing unemployment under which the other nations of Europe were staggering in the post-war depression but a fourth of her wage earners were idle in the spring of 1924 and 30 per cent were working part time.[1] Nearly a third of the workers in Sweden were out of work in the spring of 1922, and more than 20% throughout that year. The number gradually declined during 1923, but the spring months of 1924 still found a tenth of her workers unable to find employment. The facts in the other countries of Europe, the parts of Asia and Africa for which we have information, and the Australian colonies, differ only in the varying severity of the situations in the respective countries. South America furnishes little exact data on its experience though it suffered with the rest of us. In December, 1920, the new president of Chile asked that his hosts refrain from buying champagne at

[1] *The International Labour Review,* pub. by the Int. Labor Office of the League of Nations, publishes monthly summaries of the unemployment situation in the principal countries of the world.

executive banquets and devote the money saved to the relief of unemployed workmen and their families.

6. *Different Causes but the Same Results*

The unemployment of 1918 was directly due to the termination of the war. The unemployment of 1921–22 was in part due to the after effects of the war and unquestionably aggravated by them. It is not clear how much post-war conditions can be blamed for the slump in business in 1924. One is safe in asserting, however, that even if there had been no war, two or more periods of unemployment would have been experienced between 1914 and 1924. The war acted as a particular, and extremely powerful, influence which first stimulated and then paralyzed the world's economic processes. But in 1907, in 1886, and on numerous other occasions, other powerful influences were adequate to produce widespread unemployment. Every severe business depression has *special* causes, and the results are the same whether the cause is a war, bad crops, the failure of banking houses of strategic importance, excessive speculation, or bad forecasting of the market by business men. When one looks back over the economic history

of the United States since 1890 he is impressed with the conviction that the rapid increase in the numbers employed in 1919–20 and the catastrophic collapse of employment in 1921, with the repetition of the same movements of employment in 1923 and 1924, simply exhibited in an exaggerated form one of the characteristic processes of our industrial system.

Great Britain, Denmark, Sweden, Norway, Russia and Italy, have unquestionably experienced a much greater increase in unemployment directly attributable to the war than we have. Post-war influences made the depression of 1921 more severe but we may look upon the experiences of these recent years as normal and characteristic of our economic system, rather than as abnormal and exceptional. The problem of preventing these periods of depression or at least of mitigating their severity has, of course, engaged the study of the financial authorities in this and other countries for many years and particularly in the last few years.

As depressions are commonly thought to be due to preceding abnormal expansions the attention of these authorities has been focused upon the problem of how to moderate the excesses of such boom periods. For example, we have much controversy over how far and in what way

federal and credit policies generally can prevent the catastrophe of excessive booms and excessive depressions, but authorities on banking themselves emphasize the importance of direct control of production by manufacturers guided by improving statistical technique and a better understanding of the problem.[1]

7. *Is Every Business Different?*

Industrial depressions are probably no more important as a cause of unemployment, however, than the seasonal fluctuations in the demand for labor *which occur each year regardless of prosperity and depression. Most, if not all industries, have busy and dull seasons which occur during practically the same months, year after year.* A typical plant in Detroit, Michigan, with a pronounced seasonal curve, employed an average labor force of 1,700 men during the year 1923. During 16 weeks, its force exceeded 2,000 men, and for 11 additional weeks, its force ranged from 1,750 to 2,000. For 27 weeks in the year, therefore, its actual force exceeded its annual average. During 8 weeks the force was between 1,500 and 1,750 and during the other

[1] See "The Future of Prices at Home and Abroad," Proceedings of Academy of Political Science in the City of New York, January, 1925. Paul M. Warburg, p. 86, and H. Parker Willis, p. 116.

17 weeks it was below 1,500. Ten hundred and thirty-eight men were laid off in the reduction of its force from the maximum for the year to the minimum for the year. The maximum weekly payroll for the year was three times as large as the minimum payroll.

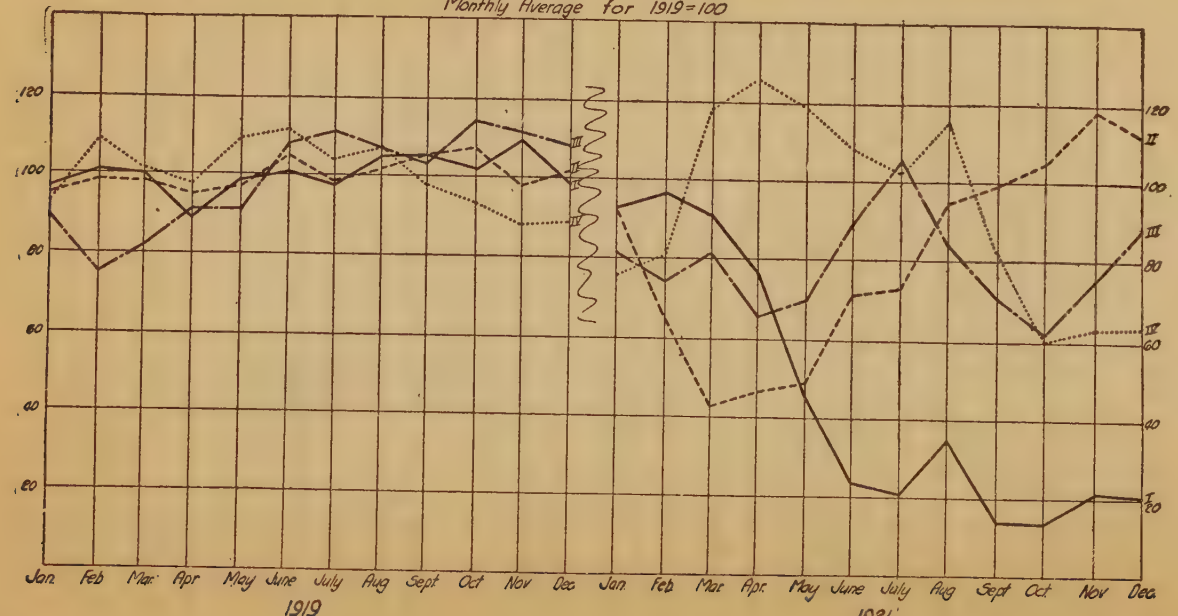
Chart I furnishes a suggestive picture of the seasonal characteristics of four Wisconsin lumber companies. These four companies were selected from a group of companies examined, because in these cases there were no special distributing factors, other than general business conditions, which affected their employment in either year. The curves depict the fluctuations in the numbers on their payrolls in 1919 and in 1921. The data from which the curves were drawn was copied from the employers' books. Since the companies differed in size the actual figures were converted to index numbers so that the curves for all companies would be drawn to the same scale. The horizontal line "100" is the monthly average of the number of employees in 1919. The four companies were all operating in the same district, using substantially the same kinds of machinery, labor and production methods.

The curves reveal two striking facts: (a) In 1919, a "typical" or "average" year, the seasonal curves of the four companies do not even approx-

Index Numbers of Average Number of Men Employed by Four Wisconsin Lumber Companies

in Each Month of 1919 & 1921

Monthly Average for 1919 = 100



imately coincide. *Each company has its own seasonal trends* which differ from those of the other companies. (b) In 1921, a depression year, general business conditions affected the different companies in *totally unlike ways.* Employment with one company got steadily worse throughout the year; with another it improved after March; with a third was good only in mid-summer. The other company furnished more employment from February through August than it had given in 1919.

The experiences of these companies are cited as illustrative of the facts that *each company in each industry has its own business cycle fluctuation and that each company has its own seasonal fluctuation.* The facts revealed by the curves are not peculiar to the lumber industry. We have found them true of industry after industry. They are facts which cannot be too strongly insisted upon. A curve which shows the trends of business in general, or of an entire industry, is a composite or average of the experiences of all of the individual concerns from which data is obtained, no two of which, ordinarily, have had exactly the same experiences. Some concerns in each line of business are active when others are dull; some lay off men when others are hiring.

In the lumber industry, to return to our illustration, some companies run both their logging and their saw milling operations throughout the year. Others close their saw mills in the winter and send their mill crews to the woods, supplementing them with men hired for the winter months only. Others log the year round and operate their mills from spring to fall, while still others log in the winter and saw the year round. Some companies cut their logs into a much larger number of wood products than do others, making possible more extensive manufacturing operations. The results of these different methods of management are reflected in their seasonal trends of production.

The New York Industrial Bulletin furnishes monthly employment figures for 85 industries in that state. In December, 1923, for instance, the number of employees on all of these factory payrolls decreased 1.2%. This was an average composed of increases in the numbers employed in 26 industries, and decreases in the numbers employed in 54 industries. In the industries which increased their payrolls, the increases ranged all the way from less than one per cent increase in many industries to 9.5% in paper manufacturing. Four industries had decreases

in employment of from 11.1% to 21.6%. A total change of 1.2% in the number of employees in manufactures was composed, therefore, of changes within the different general industries ranging all the way from an increase of 9.5% to a decrease of 21.6%.

Examination of the figures for the various subdivisions of each principal industry group, such as "metal manufactures," reveals just as great diversity among the branches of each industry. For instance, a .9% decrease in employment in the metal industries as a whole, was an average made up of decreases in employment in fifteen of the subdivisions of the metal industries and increases of employment in eight subdivisions. In the food industries a net decrease of 5.9% includes slight increases in employment in the meat industries and decreases ranging from 13 to 21% in confectionery, sugar manufacturing and canning. Careful checking over of the New York reports month after month reveals that these are typical, not occasional, facts.

In November, in the men's clothing industry, the number of workers on part time exceeded the number on full time; in the men's shirts the whole force was working overtime, and in women's hats over one half of the force was working overtime.

Twenty-six clothing factories were running full time; 4 overtime, and 15 part time. In the lime, cement and plaster industry, 15 plants were working full time, 3 overtime, and 6 part time. In the brick and tile industry, the one large plant was running overtime, one moderate sized plant part time, 19 smaller plants full time. In iron and steel, 71 concerns were working full time, 6 overtime and 73 part time.

The differences between one plant and another in the same industry, as respects the fluctuations in the number of workers employed from month to month, often exceed the differences between one industry and another. In the men's clothing industry of Chicago, for instance, there is one concern which is almost 100 per cent stabilized; i. e., it has almost completely eliminated its seasonal fluctuations in employment. There are others that are able to give year-round employment to from 60 to 85 per cent of their workers. There are others that employ a large force during two busy seasons of two to four months each, and lay off 60 to 85 per cent of their force during most of the balance of the year. The writers have found similar differences from plant to plant in metal manufactures, lumbering and saw-milling, candy manufactures, and many other lines of industry.

8. *Can Work Be Dovetailed?*

The suggestion has frequently been made in books on unemployment that plans be worked out to systematically "dovetail" the employment of workers in different industries by arranging that employees in, let us say, a men's clothing factory be transferred at the end of the busy season when they are being laid off, to employment in (possibly) a furniture factory, and then transferred back to their regular employment when the busy season in clothing factories comes around again. At first thought, this is an attractive suggestion; made more attractive by the obvious fact that a great many workers in seasonal industries have formed alternative employments into which they go at the different times in the year. For instance, seasonal laborers in the West frequently work in the lumber woods in the winter, railroad or construction work in the spring, the wheat harvest in the summer, and road work, potato digging, or the corn harvest in the fall. Many factory workers have worked out similar "dovetailing" of occupations, thereby increasing the number of months' employment which they have in the course of the year.

There is no doubt that public employment

offices, where efficiently managed, can do a good deal to assist some classes of wage earners to obtain supplementary employments to round out the short year's work in their main occupations. The Farm Labor Bureau of the U. S. Employment Service, with its headquarters at Kansas City, is accomplishing definite results along this line. The Canadian Employment Service has also been accomplishing dovetailing of lumbering, railroad construction and farm work.

But there are important reasons why dovetailing cannot be utilized on a large scale, at least for many years, to stabilize employment in the manufacturing industries. Skill is highly specialized. In the garment industries workmen are trained to perform only a certain detail, such as armhole making, on a certain kind of garment. Coat makers in "ready-made" shops are ordinarily not considered competent to work as coat makers in custom shops. When these specialized workmen are thrown on the market they are not in demand until their particular speciality is calling for men. Neither are they anxious to accept some other kind of work, at an almost inevitable reduction in wages, for if they do they will not be around when employers begin to hire men "in their line" and may lose the

chance to resume their regular occupations. This is typical of the condition in many manufacturing industries.

It is difficult, as just indicated, to shift men even from one branch of industry to another. Inter-industry shifting is still more difficult. In December, 1923, several hundred men were laid off by Illinois stone, clay, and glass products industries, several thousand by the metal industries, and other thousands in fur manufactures, shoe factories, chemical industries, and food manufactures. During the same month employment increased in department stores, millinery manufactures, paint factories, men's shirts and a few other lines. Aside from the fact that employees who belonged to these several industries were at hand to take the jobs which were opening up, and that the employers wanted people experienced in their particular industries, it is obvious that the kinds of labor being laid off were not the kinds of labor being sought by employers. Physically, temperamentally, by training and experience, they were a different labor force.

Another difficulty of much practical importance is found in the overlap of the seasons in industries between which labor might be shifted. Employers do not want to release labor at the

exact time when the industry which might utilize it is seeking men. Particularly in closely related industries, such as the different branches of clothing manufactures, this overlap of the season impedes labor mobility.

Employers are sceptical of any arrangement which proposes to transfer their workers to some other industry for a few months in the year for two principal reasons; they are afraid that they will not get their *good men* back when they need them, and they know that it will tend to undermine their plant morale or spirit. An ever increasing number of American employers are appreciating the advantages which come with a labor force that considers itself permanently attached to a particular concern. The transfer of men to another company for part of the year tends to weaken the personal relations of the concern and its men, and the progressive employer realizes that stabilization of his men's employment at his own plant rather than dovetailing is the solution of the difficulty.

Having said this much concerning the difficulties of dovetailing jobs for individual workmen, it is interesting to find some of these difficulties being effectively overcome in the clothing industry of Chicago. Up to a year ago, the skilled clothing workers in Chicago wanted

employment at their particular specialties, and at nothing else. The clothing manufacturers wanted skilled specialists for each job and did not want to stop during their rush seasons "to teach old dogs new tricks." Two recent developments in the clothing market are rapidly changing the situation. In 1922, under a joint agreement between the manufacturers and the clothing workers' union, an employment office was set up in the industry, to which office the employers were required to send their orders for men and from which the workers were required to obtain their opportunities of employment. In 1923, an unemployment insurance fund, financed by equal contributions from the employers and the wage earners, was established.[1] Under this plan the worker has definite motives for learning other kinds of skill. If he is registered at the employment office as knowing two or three different jobs he actually increases his chance to get steady work throughout the year. By so doing he both increases his annual earnings and reserves his right to a five weeks' unemployment benefit during the time when he can't get employment. Since the employment offices know exactly where each person in the industry is at work, and what he or she is earning, a person who accepts a "fill-

[1] See Chapter VI, for details of Chicago plan.

in" job at less than his regular wages is not deprived of his chance to get the first job that opens up in his regular occupation. *An organized labor market* enables him to dovetail an inferior job with his regular job without losing his opportunity of resuming his regular job.

The Chicago clothing employers have just as definite reasons for encouraging dovetailing. If each worker in the industry knows two or three jobs the different employers in the "ready-made" and "special order" houses, whose busy months are not identical, can man their plants during their rush seasons with regular workers in the industry. This makes it possible to get along with a smaller total labor supply, which can be kept more steadily at work. This labor supply, most of which is covered by the unemployment insurance fund, thereupon claims less insurance benefits during the dull seasons.

But the motive which seems to be most effective in the case of the employers is a more subtle one. The exact extent to which each concern is stabilized or not stabilized is revealed by the books of the insurance office. In cold figures, Hart, Schaffner & Marx, B. Kuppenheimer & Co, Alfred, Decker & Cohn, and the other approximately 370 employers in the market can read their unemployment score at the office of the

insurance fund trustees. Concerns which were widely heralded as leaders in stabilization have found that unsuspected competitors have outdistanced them. The transfer of employees from one job to another, so that their temporary work is dovetailed with their regular jobs, is making it possible for employers to improve their showing. Emulation in well-doing is being encouraged in an industry which has long been characterized by a harsher type of competition.

9. *Are American Business Men Fatalists?*

The spectacular character of booms like those of 1907 or 1919–20 and of depressions like those of 1909, 1914, and 1921, have caused a large number of business men to assume that business is within the control of gigantic forces which alternately lift it and drop it, regardless of the will and effort of the individual business men or groups of business men. The pendulum-like seasonal fluctuations of such basic industries as agriculture, lumbering, mining, fishing and transportation, and in many lines of manufactures and commerce have caused an almost fatalistic attitude to develop.

Business men have been disposed to leave the responsibility of solving this problem with the banking and financial authorities who as before-

said are giving the general phase of this problem increasing attention. But examination of the actual production and employment curves of individual concerns or of the facts of employment fluctuation in each industry, as revealed by the New York, Illinois and Wisconsin labor market reports, suggests that individual business management is a much larger factor in the situation than appears on the surface. The general phase is only one aspect of the problem.

It is not necessary for business men passively to accept the cyclical and seasonal tendencies of business and allow themselves to be carried along with the current. We pointed out, in Chapter I, that some business men who believe that there is always business to be obtained by those competent to get it; who realize that every workman kept on the job means increased business for industry; and who exert managerial ingenuity and originality to stabilize their businesses, have as a matter of fact succeeded in emancipating themselves to a very considerable extent from being controlled by either business cycles or seasonal fluctuations.

American business is in a better position to achieve stabilized production than that of any other great nation. The diversity of our resources, our large area with different climatic

conditions, and the consequent tendency of demand to spread itself over the year, our large and prosperous population with their high standard of living, should enable American business to achieve comparative stabilization of production within our national borders, and to at least avoid the worst evils of depression by diverting capital and labor not needed for export business to more completely serving the needs of the domestic population. A nation, like England, which has organized its business life for trade in world markets cannot help being affected by their collapse, as in these post-war years.

American business, however, does not face the necessity of depending upon other outside industries. Individual initiative can maintain sales even in the face of general business adversity. But employers who wish to reduce unemployment cannot make that wish an incidental matter. It must become one of their major objectives. It cannot be accomplished by endeavoring to "make work" for employees during a depression. The stabilization of production and employment must become a part of their continuous business policy, an objective kept in mind and definitely sought after throughout the year.

CHAPTER IV

THE COSTS OF UNEMPLOYMENT

UNEMPLOYMENT is tremendously expensive. It costs the employers of the United States hundreds of millions of dollars annually; the wage earners even more. Charity, crime, precipitated by unemployment, malnutrition of children, lowered standards of living, increased sickness and the wasted savings of the poor are but a part of the toll we pay. The National Bureau of Economic Research estimates that the wage earners of the United States worked ten billion less hours in 1921 than in 1920, and that their annual earnings decreased nearly seven billion dollars. Call it, figuring conservatively, five billion dollars. This was a decrease of a fourth in the income of the nation's wage earners and of at least one fifth in their purchasing power.[1] Wages in 1922 were approximately three billion dollars less than in 1920. The improvement in employment in 1923 reduced the wage loss for that year to

[1] Savings and credit helped to maintain their purchasing power, especially during the earlier portion of the depression.

between one and a half and two billion dollars, compared with 1920.

The wage earners of the nation earned at least ten billion dollars less in the three years, 1921–22–23 than they would have earned if employment had remained on the 1920 level. Even if we assume that 1920 was abnormally active, and that both employment and wages reached supernormal levels that year, a loss of eight or nine billion dollars due to unemployment must be charged against the three years.

Business earnings during these three years were low. Decreased value of inventories and decreased sales combined to transform the profits of tens of thousands of concerns into losses. Bankruptcies and liquidations were common. How much of the decrease in sales and in profits during those years was due to the approximately ten billion dollar decrease in wage earners' purchasing power during the period? Making due allowance for the facts that lower prices increased the purchasing power of each dollar and that wage earners consumed much of their savings and bought a large amount of goods on credit, unemployment itself cut down wage earners' purchases by billions of dollars and became a cause of continued business depression.

When the shoe factories of Massachusetts, for

instance, dropped approximately two fifths of their employees from their payrolls between March and June, 1920, *and this proportion of their employees remained out of work for the succeeding nine months,* unemployment unquestionably reduced the sales to shoe workers of shoes, clothes, manufactured food stuffs, hardware, automobiles, furniture, homes and hundreds of other things. Because shoe factory employees were laid off, garment workers, textile employees, and workmen in a wide variety of other industries were also laid off or put on short time. It is possible that the unemployment in shoe factories may have initiated a process which eventually reduced the sales of shoes so much that shoe manufacturers lost rather than gained by their "conservative" policy. A similar analysis, industry by industry, of what happened in 1921, reveals that much of the unemployment in each line was *a result* of the reduction of the purchasing power of wage earners laid off by other industries. Unemployment, at first a result of business depression, became in turn a cause for increased and longer business depression. It became a part of a vicious circle of events.

The collapse of wage earners' incomes in 1921 was of course greater than ordinarily exists when

business passes from prosperity into depression. It is probable, for instance, that the decline of wage earners' purchasing power in 1908 as compared with 1907 and in 1914 as compared with 1913, was not more than three billion dollars—but three billion dollars will buy a lot of shoes, clothes, food, hardware, automobiles, cigars and movie tickets. Every forward step that industry takes in reducing seasonal and depression lay-offs will create additional outlets for products and benefit business men fully as much as it does the workers.

It must be remembered that although many workers are idle, the number of persons who derive their chief support from wage earners does not decrease. The average decrease of earnings per person actually employed between the third quarter of 1920 and the first quarter of 1922 was only 11%, but the average decrease in earnings of the entire industrial population employed in the third quarter of 1920 was 27.5%. In other words, total incomes of wage earners and those dependent upon wage earners decreased about one fourth.

The city of Madison, Wisconsin, illustrated in 1921 the effect of maintained purchasing power during a period of depression. Madison is the state capital and the seat of the

state university. Altogether, there are close to 4,000 salaried people in this city of 50,000 population. Their incomes are not reduced by business depression. Instead, the lowered prices increase their ability to absorb products. Approximately 8,000 students bring in another large unit of purchasing power that is not affected by depression. As a result prices and retail sales were maintained in Madison during 1921 better than in any city of its size in the state. The city did not entirely escape the effects of the national recession in business, since several hundred factory hands were thrown out of employment, but the effects of the depression were materially lessened. If three-fourths of the country could have maintained the purchasing power of its salaried and wage earning classes at as high a comparative level as in Madison, the depression of 1921 would probably have been of short duration.

Obviously business men cannot prevent depressions simply by continuing production uninterruptedly in the face of falling prices and slackening demands. Nevertheless, it seems clear that our business men materially *increased* the severity of the depression of 1921 by the very method they took to defend themselves against it. Several billion dollars worth of goods that were

badly needed by consumers were neither made nor sold; profits that could have been realized on that business were never earned. Something is wrong when business men cure a cold by causing it to develop into pneumonia. Methods of procedure by which these difficulties may be circumvented are not yet fully worked out, but the illustrations given in our first chapter and in Chapter V suggest that they are attainable. It is a task that challenges the constructive abilities of American business men.

Prosperity, in recent decades, has always meant high prices and temporary shortages of some commodities. Prosperity characterized by rapidly rising prices and costs of production has and always will result in subsequent depression. A point is reached sooner or later at which buying slackens, prices begin to fall, business costs exceed business incomes, and the whole gamut of cancellations, refusals to order, frozen credits, bankruptcies and liquidations begins again.

Lack of steadiness in demand and production, year in and year out, probably hastens this process and increases the severity of the depression.

1. *Irregular Production Breeds Waste*

Irregular production causes a large waste of

plant capacity and capital investment. The committee of engineers who studied wastes in the clothing industry found that in eight representative plants in Baltimore, Chicago and New York, the plant utilization over a period of three years was only 69% of the possible maximum. As we mentioned before, the shoe industry has a capacity of 1,750,000 pairs of shoes per year, and actually produces less than 1,000,000 pairs, the excess plant capacity being used to produce most of our shoes in two rush seasons. Even in 1920, according to a recent report of the U. S. Bureau of Labor Statistics,[1] shoeworkers did not work full time. The building industry lives in a series of feasts and famines, which call upon an enormous equipment for but a part of each year, and leave much of it idle in a majority of years.

The bituminous coal industry has an annual production capacity of 800,000,000 tons. The actual average annual output is from 450,000,000 to 500,000,000 tons; the average working time about 226 days (1913–1918). Francis Peabody estimates that the average annual cost of idleness to capital is $124,000,000 and to the wage earner $280,000,000, while the nation loses close to 50,-

[1] *Monthly Labor Review*, August, 1920.

000,000 days' labor annually in the idleness of coal miners.[1] These industries are typical of the nation. When 20% of the labor power of the country goes to waste, at least as high a per cent of the productive power of capital is not utilized. In every wage scale in the building trades to-day there is an indeterminate, but none the less certain, amount included in recognition of those annually recurring periods of unemployment. Part of the present high cost of building, then, is due to unproductive idle labor that must be supported in order that it may later be available when needed. For the building mechanic, though he works by the hour, lives by the year. As William Parker has pointed out, the mere lifting of the hourly wage to take care of the idle hours does not suffice to balance the effects of the irregular employment, because the first result of the increased wage is an increased scale of living which eats up the increase and leaves the relative situation of the workmen when unemployment comes little, if at all, improved. The pinch of the interrupted income still irritates; "the same dissatisfaction with his wage rate exists; the same feeling that he ought to get a higher wage to help him carry through his slack periods remains

[1] *Monthly Labor Review,* July, 1922, p. 89. Also "Cost of Irregular Employment in Coal Mining," Horace B. Drury, *Amer. Labor Legislation Review,* March, 1924.

just as powerful a stimulus as ever and another rung on the ladder of rising costs" [1] is passed.

2. *How about the Worker's Morale?*

In all industries, one of the most serious costs of unemployment to employers is the vast fund of antagonism, misunderstanding and suspicion which is engendered among the workers toward employers. "Being out of a job is a part of every worker's life, these days. It is the Fear that poisons every moment of comfort. It is the wolf at every door." "The necessities of life are manufactured primarily for the market and only incidentally to supply the needs of human beings." These are typical sentences, taken from a labor circular handed one of the authors by a laborer in the Middle West in 1921. In substance these sentences can be found in hundreds of labor papers, pamphlets and convention speeches of the last few years. They are the printed crystallization of ideas that are in constant circulation among our wage earners.

Employees as a rule overestimate employers' profits. They know that some businesses make large profits. They see many business men rise from poverty to affluence. They believe that

[1] William Stanley Parker, *Int. Labour Review*, March, 1924, p. 365.

practically all employers "are getting rich hand-over-fist." One of the present writers was standing on a depot platform in a little town in North Dakota where fifteen or twenty harvest hands were waiting for a train. "Ten harvests, and these farmers are rich," said one of them. "And what have we got at the end of ten harvests? Lucky if we have the price of a bed next winter and a place in a soup line." This idea is the background against which is drawn the picture of the employer making big profits "when the shop runs" and then shutting down, regardless of the welfare of his men, as soon as profits begin to decline, leaving the employer able to live in affluence on his accumulated surplus profits, perhaps invested in tax-free government bonds, while his workers go in debt to the butcher and the grocer, run behind in their rent, eat up their savings, take their older children out of school, and perhaps eventually eat the bread of charity. This picture may be an exaggeration but the present unevenness of employment furnishes ammunition for this sort of attack.

All of the labor problems of American business, such as labor turnover, restriction of output, rates of wages, plant efficiency, material and machinery costs and labor disputes, are inten-

sified by unemployment. Employers are giving much thought to winning the good will of their labor force. They have become aware of the fact that such things as labor turnover, restriction of output and bad plant morale are costing hundreds of millions of dollars annually. Many employers who find themselves baffled in efforts to develop a spirit of loyalty and enterprise in their establishments are unknowingly being baffled by the fact of unemployment. How can a workman be loyal to a concern which, as he sees it, "gets all it can out of him when he can earn profits for the company and then heartlessly throws him in the street when its profits begin to decline"? Whether this is a fair interpretation of the situation is immaterial. The material fact is that this is the *state of mind* induced by unemployment.

The slave was "loyal" to his employer because he could not quit. The laborer in fear of unemployment is "loyal" in hard times because he cannot quit. He is "disloyal" in good times because he has learned to put self-interest first and self-interest is served by seeking better jobs *as long as he cannot depend upon his employer to reward his faithfulness by permanence of his job.* To the employee his job is his career.

The fear of unemployment has coercive effect

when work is scarce, but is ineffective in rush seasons. The loyalty that is worth while to a concern is that of the man who *will* not quit, who does not wish to quit, *the loyalty of good will.* And this kind of loyalty is built up in the worker's mind by confidence in the worthwhileness of his job, which always includes *security.* Loyalty is not gratitude for past favors, nor a sense of obligation, but is expectation of reciprocity in fair dealing.

3. *Irregular Work Breeds Irregular Workers*

Restriction of output is an inevitable result of irregular work. So long as periods of unemployment follow periods of overtime and rush production, there can be no real efficiency in production. What employer, if he were a workman and knew that a seasonal or depression layoff was coming sooner or later, would not automatically and instinctively slow up his processes to keep from working himself out of a job?

Employers sometimes believe that the fear of unemployment is an important motive causing workmen to try to give satisfaction, a whip to drive them. There are unquestionably times when this is true. But this motive is not in constant operation; it is at best effective only when work is scarce and in the competition of

particular individuals; and it is not as strong, as universal, nor as systematized as is the holding back of a worker to make the job last. A Minneapolis manufacturer has a row of bag loading machines in one of his departments. Some of them are thirty years old. Others are of recent make and are equipped with the latest improvements. But the number of bags loaded per day by the different machines is exactly the same. The men are common laborers, unorganized, more or less floating. They merely pass the word around that "400 bags is a day's work." It has been a day's work for more than 25 years: It will remain a day's work as long as men feel that it is necessary to hold back in order to make work enough for all and to make the job last.

Industry sustains another heavy cost that runs into enormous sums but which cannot be measured and stated in financial terms—the cost in deteriorated efficiency of workmen.[1] Most employers say that there is a chronic shortage *of good men.*

1 "Inasmuch as the problem of unemployment is absolutely tied up with that of efficiency, it is one that will have to be solved. Those industrial communities that do not bear their part in its solution will inevitably suffer the consequences. A successful outcome will only be possible if the work is undertaken as a joint responsibility of both the employers and their men. Both sides must bring to its solution the broadest spirit of sympathy and zeal." Morris L. Cooke—*The Annals,* May, 1915, p. 199.

From common laborers to mechanics, they are embarrassed by the large number of workmen who are of poor quality—unsteady, irresponsible, careless, poorly trained, not honest in their workmanship. Irregularity of employment is one of the principal causes for the large number of undesirable workmen. It trains men to float; it breaks down morale; it prevents the development of that fine skill that comes from large experience and from the expectation that efficiency will certainly be noticed and bring its reward. Men who work at casual work develop a casual state of mind, a casual character. Civilized men need a *rhythm of steady work.* This is what develops *habits* of industry. Irregular work breeds irregular workers.

In the summer of 1919 one of the writers found the clothing manufacturers of New York paying as high as $125 per week for off-pressers where the union scale was only $50 per week, and the pre-union pre-war scale had been scarcely $25 per week. The employers were actually practising deception upon the union, which was trying to prevent its members from leaving one employer in order to work for another at more than the union scale. In the same summer, in one machinery establishment, money wages per hour had increased three-fold but the product

per worker had decreased two thirds. In another establishment truck drivers who met with accidents on the streets abandoned their trucks and found other jobs, rather than stop to repair their trucks. Labor, organized and unorganized, during that peak of false prosperity had acquired four things under the illusion of general scarcity, namely, high daily wages, short hours per day, reduction of output and general irresponsibility.

Then came the downward jerk in prices with its accompanying illusion of general overproduction. Laborers lost during many months of idleness as much as they had gained, or more, because the high wages and short hours could not be met when prices slumped. Evidently the slump in prices and the struggle over wages and employment were but the necessary reaction from the preceding illusion of prosperity and general scarcity.

Unemployment's burdens rest very unequally upon the shoulders of the wage earners. Probably sixty per cent of the wage-workers of the country are definitely attached to particular concerns, or to a particular industry in a particular locality, and know that they will have work if the employer is able to keep his business operating. Many of these are thrown out of work in years like 1921. Some of them are laid

off for a few weeks each year during dull seasons. But ordinarily they can figure that they have jobs.

The remainder of the industrial workers have no such security of employment. They constitute the labor reserves which the different industries draw into employment to meet peak loads in rush seasons and boom years, and which are eliminated from the payroll as quickly as they can be dispensed with. The fear of unemployment is the cloud that darkens all their days; the reality of unemployment is the curse which from time to time wipes out their savings, deteriorates their health, forces their wives to take up part of the burden of livelihood and undernourishes their children.

4. *The Effect of Unemployment upon the Worker*

Moral breakdown is one of the most common and most permanent results of frequent or prolonged unemployment. Philip Klein, after a careful study of the situation in 15 cities during 1921–22 says:

"Though lowered morale cannot be measured and stated in quantitative terms, it was a persistent phenomenon that permeated every manifestation of the depres-

sion. Among the jobless breadwinners of families it took a variety of forms under different circumstances: strain and friction within the family, loss of ambition to seek work, occasionally desertion of family, temperamental upheavals, loss of mental balance, even to the point of insanity, development of lawless habits, begging, the fostering of bitterness against the government and social institutions in general, or sheer laziness from the discontinuance of sustained application. This loss of morale complicated every task of the social case worker." [1]

Two hundred and thirty-one families of unemployed men were interviewed in 1921 at Racine, Wisconsin, and 135 at Springfield, Massachusetts, by representatives of the Federal Children's Bureau.[2] Practically all of them were factory men, mostly skilled workmen. Only 19 out of 366 men had earned less than $100 a month in 1920 and about one third of the group had earned in excess of $150 a month. But nearly all of them had been out of work for more than 6 months. Seven of those who had homes partly paid for had lost them; 91 mothers had gone to work to help support their families; 161 families had been forced to apply for charity

[1] Philip Klein, "The Burden of Unemployment," Russell Sage Foundation 1922, p. 37.

[2] "Unemployment and Child Welfare"—Publication # 125—U. S. Children's Bureau, U. S. Department of Labor.

who had never received aid before; and 38 had received aid from relatives; 158 families had used their savings for daily bread; 117 families had contracted loans; 253 had contracted other debts; 240 had gone into debt for food and only 4% had been able to derive their entire income from the father's earnings during the depression. The expenditures of the charitable societies of Racine increased over 300% during 1921. And yet the unemployed did not meekly collapse in the midst of disaster. Klein found that the unaided efforts of individual families to meet their own crises were far more important in the results accomplished than all of the activities of social agencies, special committees and the other organized efforts to meet distress among the unemployed.[1] When laid off, practically all workmen expect to be soon re-employed or else to find other work. As unemployment continues for week after week desperate efforts, and often marked ingenuity, are expended to obtain means of income. Odd jobs are sought, work of an inferior grade accepted, savings are often invested (and generally lost) in grocery and confectionery stores, photo or florist shops, shoe shops and the like;

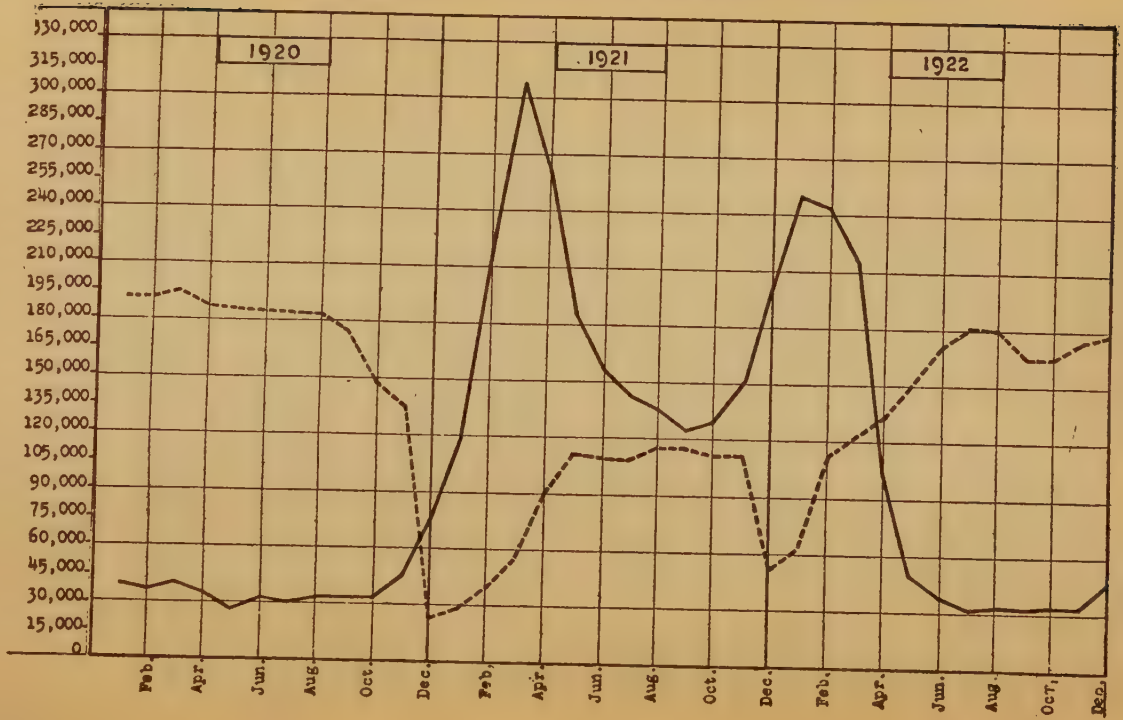
[1] The reader will find it well worth while to read "The Burden of Unemployment," by Philip Klein. The first chapter is the best description on record in this country of what actually happens in the families of the unemployed.

the women and children seek work, many families move to other towns or back to the country. Postal savings declined steadily in the depression of 1921, and savings bank deposits in cities in all parts of the country were depleted wherever the banks had a large working class clientele. Extensive loans on life insurance policies and chattel security and mortgages on homes were negotiated by the unemployed.

Unable to get enough income to balance the budget, they attacked the problem from the other end and tried to curtail expenditures within the limits of the income. Some doubled up in lodgings with relatives or friends; others reduced the food budget to the extreme with consequent undernourishment of children and great increase in rickets and other children's diseases. Purchases of fuel and clothing, recreation and medical expenditures were reduced to the minimum. In other depressions the hardships were even more acute because the workmen had not the advantage of the larger previous wages, and thus savings, to fall back upon. It is not strange that workmen fail to develop loyalty to an industrial organization that exposes them to such hardships.

What does it cost, in terms of charity, to carry the unemployment burden of the nation? It is

DEPARTMENT OF PUBLIC WELFARE, DETROIT, MICH.



This line indicates the minimum number of men employed as reported by the Employer's Association, representing approximately two-thirds of working population of Detroit.

This line indicates number of dollars disbursed each month.

impossible to tell. Figures are available only for particular localities. In Detroit, the number of applications for relief filed with the Municipal Public Welfare Commission jumped from 9,337 in 1920 to 34,000 in 1921. The cost of relief in 1920 was $361,674. In 1921 it was $1,928,372; and in 1922, $1,000,860. In 1923 it went back to pre-depression levels, $385,913. Application for relief calls for assistance in the first three months of 1921 were more than 800% greater than during the corresponding months of 1920. Fifteen out of every 18 families aided in 1921 were made destitute by unemployment; 7 out of 9 in 1922, while in 1923 unemployment as a cause of destitution disappears from the Public Welfare Association report.

The central government of Great Britain spent nearly $200,000,000 a year on the average, in the four years 1920–23, for unemployment relief. The expenditures from unemployment insurance contributions by employers and employees were approximately as much. The expenditures by local authorities in some cities exceeded the expenditures of the central government on account of unemployment. America's bills have not been as burdensome as those of Great Britain, but who can tell what

the future holds for us if unemployment is not brought within control?

The costs of unemployment are apparent. They affect every member of society—the employer, by adding to the costs and confusion of production, the employee, by lessened earnings and a general lowering of morale, the community, by higher prices and the expenses of public and private relief. What these costs are we can never reckon in dollars and cents but we know that they exist and pile a burden of crushing weight upon the rank and file of the country.

CHAPTER V

PUBLIC POLICIES TO RELIEVE UNEMPLOYMENT

PUBLIC as well as private efforts are required to reduce unemployment to a minimum. The forces which control the prosperity of business in any nation are only partly domestic, only partly economic. International influences and political influences play their parts. Even when all known policies to reduce unemployment that can be put into force by private business are utilized there will remain distinct cyclical and seasonal fluctuations of employment which will produce a certain amount of unemployment. Public bodies, federal, state and local, are among the largest employers of labor. There are such marked fluctuations in the numbers on the public payrolls that the special committee on public works of the Chicago Committee on Unemployment in 1921 reported that "the vigorous prosecution of all possible new construction work will not equalize the lay-offs from the public

works now under way, and that from ordinary operations." In Detroit, at the end of 1921, city officials could not devise means of re-employing all the men the city had to lay off at the end of the year because of completion of work.

1. *The Responsibility of Government*

Governmental bodies, by increasing public works and public purchases in times of depression, have it within their power materially to stimulate business in times of depression and in dull seasons. As Professor Clark has pointed out:—[1]

"At present, governments follow slavishly the example set by private business men. In times of prosperity when business is expanding and business men extending their plants, governments spend freely. Optimism is in the air. Revenues are abundant. Money can be easily borrowed. Criticism of expenditure is absent or perfunctory. Public works are therefore built on an elaborate scale, harbours are deepened, canals are dug, the railway net is tightened and spread over wider areas. Thus, by competing with private industry for labour and capital and materials, governments accentuate all the evils of the boom period. Then, when de-

[1] See an article in "Proceedings of International Association of Public Employment Services," published by The Department of Labour, Ottawa, Ontario, September 1920, by Prof. W. C. Clark, Queens University, Kingston, Canada.

pression comes, governments are among the first to contract their operations and among the last to resume, thus aggravating the unemployment, the fall in prices and wages, and all the evils of the period of hard times. As the Dominion, provincial and municipal authorities are the largest employers of labour in this country, their short-sighted policy must greatly increase the fluctuations in employment caused by private industry. It is for this very reason that they could do so much to counteract these fluctuations if they decided that it was their duty to act as a balance wheel to the industrial mechanism. The English experts believe that this is one of the functions of government. Let a preparedness policy be adopted, they say. Let public improvements and expenditures be planned on a long-term, say, ten year programme. Let a certain variable percentage of such expenditure be deferred in each normal business year of the decade. Let these accumulated, deferred improvements constitute an employment reserve, so to speak, which can be utilized to compensate for decreased private employment, due to lessened demands of private employers in the lean years of the decade."

Obviously, a responsibility to coöperate with private business to reduce unemployment rests squarely upon the state. Interest in this suggestion has become widespread in the United States only in the last decade.

In 1912 the late Professor Charles Henderson of Chicago suggested the systematic distribution

of public work over long periods such as a decade, in such a way as would tend to balance the more extreme fluctuations of the labor market.[1] During the depression of 1914–15, there was widespread discussion of the practicability of accelerating necessary public works in periods of depression and nearly 100 cities in 29 states increased public works to provide jobs for men out of work. In 1918 a conference of governors at Annapolis considered the whole question of the use of public works for unemployment relief, and in 1919 legislation looking in this direction was enacted in five states. On January 21, 1919, a bill was introduced in Congress [2] to provide for a United States Emergency Public Works Board to coöperate with all federal, state and municipal agencies intrusted with the execution of any public work "to stabilize industrial and employment conditions" during the period of demobilization and industrial readjustment "by providing or stimulating increased opportunities for employment on useful public works during periods of

[1] Henderson, Charles R., "Recent Advances in the Struggle Against Unemployment," *American Labor Legislation Review,* Vol. II, pp. 105–110.

[2] "A bill for the commencement of prosecution of public works in order to provide increased opportunities for employment during the period of demobilization and industrial readjustment, and for other purposes." S. 5397, 65th Congress 3rd Session, Congressional Calendar, Jan. 21, 1919, introduced by Senator Kenyon.

extraordinary unemployment." This Board would have had at its disposal $100,000,000 to be used to complete federal works for which funds immediately available were inadequate, to construct roads of military value and to pay the transportation costs of workers recommended by the U. S. Employment Service to such works. The bill further provided that the War Finance Corporation could make loans to state governments, upon the recommendation of the Public Works Board, to accelerate public works of the states and their subdivisions. In 1918, the War Labor Policies Board urged all local officials to expedite public work delayed during the war in order to relieve the unemployment expected during demobilization. Reports of the mayors of 125 cities, with a total population of 25,500,000 people, to the President's Conference on Unemployment, stated that public works were being energetically pressed in 1921–22 and that an unprecedented amount of winter work was being undertaken.

Mr. Otto Mallery, of the Industrial Board of Pennsylvania, estimated that if unemployment reserves were accumulated for a decade by governmental bodies, "the lifting power" of public works during a period of depression would exceed a billion and a half dollars or "one third the

maximum dead weight of an industrial depression" of the proportion of 1921–22.[1] Mr. Bowley, the eminent British statistician, estimated in 1909 that if from 3% to 4% of the annual expenditures of governments was held in reserve for the creation of work during depression periods it would be adequate to offset the wage losses of serious unemployment periods. The Employment Service Council of Canada, after an exhaustive analysis in 1919 of the expenditures of all of the governmental bodies of Canada, found that 5% of the total expenditures of a decade would accumulate a reserve large enough to swing the balance against depression. This would mean the setting aside by the central government, states and cities of the United States of from forty to fifty million dollars annually to be used in the expansion of public works during bad years.

2. *Public Works Must Be Economically Sound*

Probably few Americans would oppose the principle of the proposition that public works be

[1] Mallery, Otto—"Reviving Private Industry through Public Works." "Preventing Periods of Unemployment by Expanding Public Works," *American Labor Legislation Review,* March, 1921.

used, with due regard to public economy, to balance the fluctuations of private business and stabilize business and employment. To be sure, the *Manufacturers' Record,* in March, 1923, made an emphatic protest against the suggestion of Secretary Hoover to President Harding that all but absolutely essential public work be held in abeyance until general business construction slackened and then resumed when a falling market developed. The editor's arguments, and those of the business men who sent their opinions of the matter to the editor, centered about the idea that this action was for the purpose of checking inflation in the building industry and to stabilize building costs. Completely lost sight of was the fact that Secretary Hoover wished to delay public works in order to have a work reserve to check the evils of a deflation period.

In 1824 the Reverend Anthony Collett, in a letter to Thomas S. Gooch, member of parliament, protested against the "present ruinous system of relieving unemployed men with money instead of providing them with work" and recommended a system of farm improvement and road construction to absorb the unemployed. Throughout the nineteenth century and down to 1924, relief work created

simply for the purpose of giving employment has been widely used in foreign countries and to some extent in the United States.

One American city is on record as having recently furnished work to the unemployed by having rock carted to another part of the city, and then back to its original location. Another put 50 men to work by putting its garbage collectors on a five-day week, thus making room for additional men for one sixth of the work. Forty additional time keepers were added to one city department and 200 extra men added in the street cleaning department, solely to give work to the unemployed. In Sioux Falls, South Dakota, hand digging was substituted for machine digging in ditch work in order to provide more employment. Careful scrutiny of the additional public work provided by American municipalities in 1921 and in 1914 will reveal that throughout the country much employment was furnished which, from the taxpayer's point of view, was pure waste. No real return in valuable service was made to the public. The work was merely charity in the guise of employment.

Experience has always and everywhere revealed that such a use of public works, i. e., merely as *relief* measures to mitigate unemployment, is wasteful and demoralizing. Moreover,

it does nothing to cure unemployment and little to set the wheels of industry to turning. It may be laid down as a fundamental principle that public works used to relieve unemployment should be economically sound, yielding full value to the taxpayer for his investment. They should permanently increase the wealth of the community, and be performed by labor employed in the ordinary way, i. e., on an efficiency basis and at current rates of wages—a principle frequently violated in England and on the Continent.

Neither should public relief work displace labor already employed by taking work away from private employers. It does little good, from an employment point of view, for a municipality to undertake paving or sewer construction if private employers are thereby forced to reduce their forces. In Lincoln, Nebraska, the county commissioners ran a factory making cement culverts for country roads. In Cleveland, eighty women were employed making garments for public institutions, and in St. Louis women are employed to make bathing suits for use in the city bathing pools. Such relief work may assist in meeting the local unemployment situation but when considered from a national point of view, merely transfers from private to

public payrolls those employees who would be employed anyway. It is questionable whether this is even good local policy.

Germany has worked out an interesting type of public relief work in connection with the distribution of unemployment relief.

"It has been a condition of the issue of unemployment relief in Germany since its inception that the recipient must accept any suitable work offered, either in the open labour market or on public relief work schemes; the object having always been the substitution, so far as possible, of productive labour for unemployment relief. Those employed on public relief works, however, were paid the standard rate of wage, i. e., the rate fixed by collective agreement (or otherwise recognized as locally current) for the work on which they were engaged, and the person performing such work retained his status as party to a contract of service or employment.

"Since November 1, 1923, there has been in operation a new principle, which requires that the recipient of unemployment relief shall perform, if called upon, a certain amount of work or public service as a return for the money he draws from the Unemployment Fund.

"Two kinds of relief work are now distinguished. Of these one retains the name and character of the ordinary "Relief Work" (Notstandsarbeit) which has hitherto been the outstanding feature of the German

system of provision for unemployment, with this important difference, however, that a person employed on it no longer retains the status of a party to a contract of service and instead of the standard wage he now receives only a statutory rate of unemployment benefit, increased by certain percentages dependent upon (a) the number of hours worked; (b) the degree of diligence shown (as measured by output); and (c) the question whether the worker is or is not a skilled craftsman exercising his own craft. (If he is, he gets a 10 per cent increase on the statutory benefit for every 8 hours worked.)

"The second (new) form of relief work is known as 'Duty Work' (Pflichtarbeit). Those set to perform this kind of work receive the statutory rate of unemployment benefit and no more. The general principles governing this kind of work are: (1) that it must be work of public utility; (2) all employed persons in receipt of relief must perform it if called upon to do so; (3) an unemployed person may not be required to do work for which he is physically or otherwise unfit, or which would make it impossible or difficult for him to follow his usual trade or calling; (4) the work must be such as would otherwise not be done at all, or not undertaken at that particular time or on so great a scale; (5) it must not be work the performance of which would make it possible to dispense with the services of people in normal employment; (6) it must not be work on jobs made vacant by strikes or lock-outs.

"At a count taken February 15, 1924, it was found that out of 985,902 unemployed in receipt of benefit in the unoccupied territory, 271,515, or about 28 per cent, were employed on 'duty work,' and that, out of 186,720 unemployed in receipt of relief in the occupied territory, 40,438, or about 22 per cent were so employed.

"The nature of the work required of these persons varies very much, but certain types of service are found to predominate, in particular, digging, etc., in public gardens, parks and cemeteries, road-building and mending, tree-felling, grubbing up tree-stumps, cleansing of roads and public buildings, etc., where any or all of these occupations have had to be restricted owing to the lack of funds. Sports grounds and playgrounds have been laid out; uncultivated land transformed into allotments.

"Unemployed skilled workers have been set to work at their own trade for the benefit both of the unemployed themselves and of public institutions. Tailors and shoemakers have been put to repairing (in workshops established for this purpose) the clothes and the boots of the unemployed. Carpenters and joiners have made coffins for the burial of the poor, or have fitted up Employment Exchanges. Bookbinders have repaired and bound the books of the public libraries. Intellectual workers have been engaged in the instruction of juvenile unemployed, who have been found to be more docile under the guidance of a companion in misfortune than under a regular teacher. Lawyers have given free legal advice. Many of the unemployed have rendered

service in various institutions for the relief of the needy as well as in benevolent institutions. Others have been employed in keeping order or in first aid work amongst the crowds waiting at the Employment Exchanges.

"But it is in the treatment of juveniles that this system of making social service a condition for the receipt of unemployment benefit offers perhaps especial interest. The problem in Germany, as elsewhere, has been to save the youth of the nation from the demoralizing effects of idleness at an age when they have had no time to acquire the habit of work. A certain percentage of the available work is set aside for juveniles, and they are kept under strict supervision. In some places, smoking, or attendance at movies, is visited with the withdrawal of the unemployment benefit. In large towns, unemployed juveniles are placed under the guidance of unemployed Boy Scout leaders, who assume responsibility for them and seek out the slackers. In most cases work and instruction are combined.

"It is stated that, as an experiment, 'duty work' has, on balance, proved a success. Even in the short period that has elapsed since its introduction, it has been found effective, not only as a method of achieving its original purpose of providing 'productive' employment and weeding out the 'work shy,' but also as a means of furthering economic and educational purposes that would otherwise have been neglected for lack of funds." [1]

[1] *The Ministry of Labour Gazette;* June, 1924, page 198.

3. *Public Works Must Be Planned in Advance*

Public bodies can accomplish the maximum result in checking unemployment by following a few now well-established principles. *The work must be planned far in advance of the unemployment emergency.* This is absolutely essential. Charter limitations and legislation of one sort or another, such as limits of bonded indebtedness, prevent most cities from undertaking an unusual amount of public work on short notice. The removal of these legal restrictions and the enactment of new legislation that will make the work possible, without removing statutory safeguards of the taxpayer's purse, require study and action long before the unemployment emergency comes. Funds, legal authorization of the work, plans and specifications, and contracts ready for signature by successful bidders, must all be ready in advance.

In 1921, the sale of municipal bonds for local public works broke all records. The total for the year was $1,383,000,000, nearly double that of any previous year and three times the annual average of the preceding sixteen years. But construction, though large, necessarily fell far below the bond sales. The letting of contracts commonly lagged months behind the sale of the

bonds, and additional time was required for contractors to assemble equipment and get the work into actual operation. Some of the work authorized would necessarily extend over several years. Only a fraction of the bond sales relieved the unemployment of 1921.

The proper advance planning of the work requires consideration and adjustment of several factors. Public work and public purchases must be carefully analyzed to separate the immediately necessary work and supplies from those which can be deferred. Some paving and sewer construction, public buildings, and park and playground development, river and harbor development, and highway construction are badly needed to serve immediate public needs. Obviously, such construction cannot wisely be deferred for three or four years. Other projects of this kind, however, can be delayed without serious inconvenience. Even more important, far-seeing public officials may lay out long-time plans which foresee that certain public works will inevitably become necessary, and at times accelerate development of these works in periods of depression or during winter dull seasons.

Careful analysis of the needs of the community is therefore essential. Approval of bond issues for these projects by the public vote must be put

through, which often requires considerable education of the public. The specifications and contracts must be prepared. We disagree with the suggestion of many writers on the subject, however, with respect to the acceptance of bids previous to the period of depression. There are two advantages which the taxpayer may hope to get from the performance of public work during periods of dull business: decrease in the costs of public charity and lower prices of raw materials and lower wage costs on the work. If bids are asked in advance of the time of performance of the work, costs may be increased.

Public work should not only be accelerated in dull periods; it should likewise be retarded in periods of rapid business expansion. The holding back of work will relieve the strain on material and labor markets in the period of activity, just as its launching in the depression year will stimulate demand in the markets and tend to set the wheels of private industry moving.

The accumulation of sinking funds is an important, even strategic, part of the program of regularizing business through the shifting of public works. Alameda, California, levied a special tax of 1% to form a relief fund for use in public works when thought necessary by the council. In Cortland, N. Y., street work is

planned by the Board of Public Works for three years in advance. The method used will have to depend in each case upon the peculiarities of state legislation and municipal charters. State and federal governments face the same problem, and some of the American states have taken steps in this direction.

In 1917 also, the State of Pennsylvania, under the leadership of Mr. Otto Mallery, took the pioneer step in the planning of public works to relieve periods of unemployment. An act was passed by the Legislature in that year creating what was known as the Emergency Public Works Fund of $50,000 "to provide increased opportunities for employment in useful public works . . . during periods of extraordinary unemployment caused by industrial depression." An Emergency Public Works Commission was created composed of the Governor, the Auditor General, the State Treasurer, and the Commissioner of Labor and Industry. This Commission was to "ascertain and secure from the various departments, bureaus, boards, and commissions of the Commonwealth tentative plans for such extensions of the public works of the State as shall be best adapted to supply increased opportunities for advantageous public labor during such periods of temporary unemployment, to-

gether with estimates of the amount, character, and duration of said employment, the rates of wages and such other information as the Commission shall deem necessary." To the Industrial Board of the Department of Labor was assigned the duty of keeping constantly advised of industrial conditions throughout the State, and when it considered a period of extraordinary unemployment to exist, to so report to the Governor.

When such report had been made to him, the Governor was instructed to authorize the Commission to "make such disposition and distribution of the said Emergency Public Works Fund among the said several departments," etc., for whatever extension of the public works, including the purchasing of supplies, as the Commission shall deem best adapted to "advance the public interest by providing the maximum of public employment in relief of the existing conditions of extraordinary unemployment consistent with the most useful, permanent, and economical extension of the works aforesaid."

While the appropriation supplied in this act was very small—and the Governor reduced it still further from $50,000 to $40,000—it was a decided step in advance and gave Pennsylvania the machinery with which to meet a coming

depression, at which time it was hoped additional appropriations would be made to make the work of the Commission more effective.

In 1921, an act was passed by the California Legislature, approved on May 24th, authorizing the State Board of Control, which supervises the expenditure of all State funds, to secure from the various departments and boards of the State, tentative plans of public works which might be extended in order to afford "increased opportunities for advantageous public labor during periods of unemployment."

Through investigations by the Bureau of Labor Statistics, the Immigration and Housing Commission, and the Industrial Welfare Commission, constant record was to be kept of conditions throughout the State, and should the Bureau decide that a situation of extraordinary unemployment existed anywhere, the Board of Control was authorized to use the available emergency fund "for such extension of public works as the various departments, etc., may suggest, the action taken to be left to the judgment of the Board of Control." Like the provision in the Pennsylvania Act, lists of approved applicants, with their qualifications, were to be prepared by the Bureau of Labor Statistics and made available for employment

departments. Preference in employment was to be given citizens of the State, then to citizens of other states, and last to aliens within the State.

The New York Legislature also, in 1921, passed a resolution proposing the creation of a legislative commission "to co-ordinate the plans for public work in the State in such a way as to secure thereby the widest possible relief for prevailing unemployment." An emergency measure, providing an appropriation of $25,000, was interned in the commission on the excuse that "the budget must be gone over." A commission was actually appointed, however, consisting of three members of the Assembly and two of the Senate, to investigate public work then under way or planned by municipal and public bodies, and to report to the Legislature what would be a fair distribution designed to secure the greatest benefit. State officials responsible for construction projects were to supply the commission with all information in their possession so that a state-wide program might be worked out.

Wisconsin was the third state to adopt a regular policy of advance planning of public works. In 1923 an act was passed directing the Board of Control to ascertain from the various state departments and institutions tentative plans

for public works and estimates of the character and duration of employment thereon, the number of employees who would be used, the wage rates paid, etc. The Industrial Commission, in coöperation with the Immigration Commissioner, was to keep constantly informed of employment conditions and report to the Governor "whenever extraordinary unemployment exists, caused by industrial depression." When such a report had been made, the Board of Control was authorized to distribute available funds for public works among state departments and institutions in such a way as to provide maximum public employment "consistent with the most useful, permanent and economic extension of such works." Preference in such employment was to be given first, to state citizens; second, to citizens of the United States from other states; and third, to aliens resident in the state.

Thus in three states, at least, there is a definitely organized authority through which speeding up of public works can be carried on in periods of depression, and also a check exerted on them in times of prosperity, to even out industrial activity.

New Jersey has also a very effective method of long-range planning of public works in the form of a State Board of Control of Institutions

and Agencies. A ten-year program for state institutions has been drawn up by the Board, after a study was made of the post-war high prices, and successive regular appropriations requested from the Legislature. The report of the Board states that "the plans will be ready for fifteen institutions, each consisting of several buildings. It will be easier to concentrate construction during unemployment periods than to spread it out equally." New Jersey has here proposed an administrative solution of the long-range planning of state institutions.

4. *The Government as an Effective Purchasing Agent*

Governments may also influence business conditions materially by proper manipulation of their orders for supplies. Examination of the list of things purchased by governments is astounding. They buy in almost every field of commodities—iron and steel, hardware, clothing, canvas, silk, woolen and cotton textiles, furniture, office supplies, foods, automobiles, horses—almost every commodity used by private citizens. Some of these are perishable and must be obtained in short-time purchases. Others can be stored for years. Systematized and centralized purchasing would make possible the manipula-

tion of these commodity orders for the balancing of private industry. In 1920 the Dominion of Canada established a Purchasing Commission to supervise the buying of all government supplies. Whenever the government employment service informs them that a particular branch of industry is slack, they place orders with that industry, so far as it is possible to do so without extra expense to the government. Far from resulting in increased costs, it enables the government to buy when price quotations are lowest.

New York and Wisconsin have probably gone further than any other states in centralizing purchasing of state supplies in a scientific and systematic way. By a provision of the New York State Law of February 1922, a state department was created "for the centralized purchase, control and distribution of all supplies required by the state." In order to ascertain exactly and accurately both current needs and estimates of future requirements, a bureau of standards was also established.

Under its new system there is nothing to prevent the State of New York from making such service agreements covering at least the period of time for which appropriations are customarily made. No obstacle prevents buying from hand to mouth during boom times or placing larger

orders during periods of depression. California, Colorado, New Jersey, Pennsylvania, Wisconsin, Illinois, Maryland, Massachusetts, Arizona, New York, have all either provided commissions to investigate possible means of using public work and purchases in order to stabilize business, or passed resolutions intended to speed up public works during the depression of 1921.

On the whole, *the situation in state governments is very encouraging, but also very rudimentary.* Only a beginning has been made, and unless Legislatures can be induced to plan in good times for the coming bad times, press of other matters will probably postpone any further preventive action until another depression is upon us.

5. *Of Course there are Obstacles*

Several obstacles to wise state planning have already been mentioned, i. e., existing legislation and charter provisions, limits on municipal bond issues, difficulties in securing bond issues in advance of a pressing need, the lack of foresight of public officials elected for short terms of office. There are several others which must not be overlooked. Taxpayers are apt to oppose bond issues and sinking funds accumulated for

future expenditure, on the ground that they may lead to extravagance. Some public officials declare that unemployment is not a municipal concern, and that it would be a misappropriation of the taxpayer's money to undertake public work extensively unless it had been definitely planned for that particular time. Also, the situation is complicated by political jealousy. Office holders are lukewarm about doing the work necessary to get authorization and funds for a public project and allow someone else to put it through at some future time. For instance, if they did the preliminary work, the outgoing Democrats would fear that the incoming Republicans might launch the project in order to strengthen their political machine by providing so much employment.

Nevertheless whenever there is an emergency situation, a calamity affecting thousands of homes, for which no preparation has been made, it is naturally to the city government that the people turn in their fear and distress. With this in view, it is better for the city administration to recognize its responsibility and prepare a plan of action rather than to wait until the clamor of public opinion, or maybe indignation, obliges it to take panic measures, ill adjusted to actual

needs, ill administered, and destructive of other forces in the community which make for mitigation of the distress that has arisen.

The experience of many cities during 1921 has raised a serious question as to the practicability of short-time expansions of public work. We have mentioned the fact that Chicago found itself unable to even retain on its payroll some of those who had been employed. Detroit furnishes an even more impressive example.

In the fiscal year, 1921, Detroit paid out or incurred liabilities for public works amounting to $63,000,000. There were at least 50,000 unemployed people in the city at that time, 100,000 having been reabsorbed into private industry and nearly as many more left the city because of lack of work. Every effort was made by the Mayor's Conference on Unemployment to discover possible new sources of public employment. What was the result?

Carefully surveying the possible work of 1922 that might be pushed forward to the winter of 1921–22, the city officials found that it would be possible to accelerate the completion of a new

Police building	500 men
Pushing ahead a new wing of a hospital	50 men

New garbage can stands	100 men
Relocating of curbs	100 men
Building of garbage and ash transfer stations	30 men
Further maintenance of unpaved streets	200 men
Grading a transfer station site	10 men
Addition municipal asphalt plant	50 men
Additional plank cross walks	50 men
Additional timekeepers	40 men
Additional garbage collections (by giving 5 day week instead of 6)	50 men
New schools	500 men
Completion of Eastern Market	50 men
	1,730 men
Original estimate of loss January 1, 1922	4,335 men
Net loss if all plans suggested were carried out	2,605 men

Thirty-four cities reported to the American Association of Labor Legislation in 1921 that they had appropriated a total of nearly $10,000,000 for the purpose of starting or pushing ahead necessary works, in spite of the fact that at that time many cities were disposed to hold up public

work for lower costs. None of these were able to provide work for all who needed it. Eight cities were dividing the work up among a larger number of men by putting workers on a part time basis.

In Canada, under legislation enacted recently, the Dominion Government agreed to share the excess cost of works done under conditions less favorable than normal by the provinces and municipalities, such as work done in the winter which could have been done more cheaply in the summer. During 1920–21, over 3,500 local works were assisted with subsidies by the British Government, and during the four years 1920–23, inclusive, the British Government spent over $250,000,000 in governmental projects to relieve unemployment. In 1923, they estimated that 200,000 men were employed directly and 100,000 indirectly. Great Britain, unfortunately, emphasizes the relief idea, and generally pays wages below the market rate on these "relief works." Most American undertakings are managed on a commercial basis, the labor being hired in the open market, paid market rates and discharged if markedly inefficient. In the long run, this is the only policy that will succeed.

Great Britain and Germany have been experi-

menting with a policy that will probably not find as much favor as public works in the United States, i. e., subsidizing approved private projects.

In Germany, under a decree of June 7, 1921, the government has subsidized many thousands of private undertakings inaugurated for the double purpose of absorbing the unemployed and pushing through public improvements which the state alone could not afford to finance and which private industry, unaided, would not undertake. The state first passes upon the utility of the project and makes a formal contract with a particular company to put it through. The money advanced by the state goes to the company doing the work, and not directly to the men, whose relations to their employer are similar to those of workers in any strictly private enterprise. Where a loan to the company suffices, no money is given outright. The enterprise must be one which uses home products and is not dependent upon foreign coal or raw materials, consequently the labor indirectly employed is German labor. Undertakings are favored which shift the labor from the over-populated factory towns to the country. The federal, state and local treasuries share the costs.

The financial relations of the state to the contractor are much like those of cities building street car lines, bridges, and the like in the United States. But the contractor is required to recruit a certain percentage of this labor force from unemployed persons certified to him by public employment exchanges and he must conform to general labor conditions specified by the state. The labor employed is engaged on the production basis, they work on the same level as other labor, and are not regarded as paupers or relief workers. They receive the minimum wages specified in trade agreements in the various branches. They are not lowering general wage standards since the men receive market rates.

In conclusion, we may state that we believe that there are large possibilities in the wise use of public works to alleviate unemployment. We have pointed out that this must be distinguished from mere relief work. The greatest difficulty has been poor administration. Charters need to be amended, sinking funds accumulated, long-time plans worked out, some policy of giving out the work developed that will be independent of politics. Work must be planned in advance, places approved, contracts drawn, and everything ready. It should be emphasized that this policy does not involve any increased construc-

tion or purchases but merely planning the normal construction program in the most effective manner. When this procedure is adopted effective results in the easing of distress will undoubtedly accrue.

CHAPTER VI

INSURANCE AGAINST UNEMPLOYMENT

UNEMPLOYMENT is *the* outstanding defect of capitalism. Under slavery and feudalism the manual workers had meagre livelihoods, but they were sure of them. Capitalism has multiplied the world's wealth and increased the incomes of all classes, but it has reduced the security of laborers' incomes. Both the investor and the wage earner are passive factors in industry. The income of each of them depends upon the Captain of Industry. They receive incomes when he keeps their savings or their hands busy. Dependability of income is, to them, the most important thing but they are unable to provide it for themselves. The business man, who controls the steadiness of labor incomes, bears the responsibility of seeing that they are assured.

Business men and economists generally recognize that capitalism has failed at this point. Some of them even maintain that unemployment is one of the inevitable by-products of capitalism, essential to its processes. A well known indus-

trial manager who has done much to improve labor conditions in American industries says:

"*Without a surplus of labor,* industry would be stalemated and expansion and enterprise checked. If everybody were steadily employed everywhere it would be of little use to plan for progress. Hence the first thing to note and reckon with is that each industry needs a surplus of labor. Capitalism is aware of this and should face the consequences. The necessary surplus of labor in any industry should be carried at the expense of the industry." [1]

In our present stage of industrial development, one cannot tell just how true this statement is. We have already suggested that the amount of unemployment and the size of the labor reserve in American industry is excessive. But we believe that Mr. Calder is entirely correct when he says that capitalism must sooner or later assume financial responsibility for whatever labor reserves it carries to meet its expansions and contractions of production.

Unemployment, if it is preventable, should be prevented. If it is not preventable, it must be assumed by industry as one of the inevitable overhead costs of doing business. Industry already sets aside in prosperous times reserves to be used

[1] Calder, John—"Capital's Duty to the Wage Earner."

for paying interest and dividends in dull times, i. e., for carrying its capital overhead. The overhead of labor consists in the fact that wage earners' families live by the year though they work by the day, and that the labor supply must be nourished in periods of idleness, like the capital supply, so that it may be available when needed. Modern thought also tends toward the idea that our economic system must provide continuous support for our people just because they *are* people. This contention is strengthened when we approach the question from the point of view of the legitimate responsibility of industry to carry its labor as well as its capital overhead.

Unemployment insurance has barely started in the United States and indications are that its history in the United States will follow a different course from that of Europe. Two widespread fears and an aversion to unnecessary government control of private welfare are causing Americans to desire to leave this matter in private hands as far as is possible. The first fear is that of demoralizing American wage earners.

"Security against want has always been an incentive against idleness. Fear of what the future may have in store has always been the greatest incentive of thrift, saving and industry. Just as far as compensation is provided to a worker his morale will be lowered, his

spirit of independence, self-reliance and self-respect will be destroyed and the incentive to thrift will be gone. The employee who knows that if discharged he can have compensation will not be interested in being efficient and will not be as alert to make good in his job and when he is out of a job he will take no steps whatever to find another." [1]

The second fear arises in the idea that unemployment is not a risk sufficiently measurable to be subjected to insurance. One of the prerequisites to any kind of insurance is that the risk be susceptible of measurement and averaging. If unemployment is insured we must be able to make reasonably accurate estimates of the reserves and current income which will make possible the payment of a given scale of benefits without danger of bankruptcy of the unemployment fund.

Unemployment presents particular difficulties at this point because the individual concern and even the entire industry has but a limited amount of control over it. Cyclical fluctuations of business, catastrophes in distant countries, wars, political crises, bad harvests, monetary conditions, a certain amount of unavoidable seasonal fluctuation and declining pros-

[1] Statement of a Wisconsin employee before a legislative committee.

perity in some industries and concerns, are bound to produce a considerable, sharply fluctuating amount of unemployment. This fear on the part of the employers is accentuated by the widespread idea that unemployment is not preventable. If unemployment cannot be materially reduced, the cost of unemployment insurance would of course be a direct addition to operating costs. On the other hand, the advocates of unemployment insurance believe that in the long run the costs of such insurance will be more than compensated for by the increased business profits which will result from increased stabilization of employment, and that the insurance will pay its own way by encouraging stabilization.

The National Industrial Conference Board [1] suggests that because the risk of unemployment among American wage earners is still not known with any degree of definiteness, (except that we know that "the rate is very high" compared with other industrial countries, and that the rate has not yet been reduced as much as it is practicable to reduce it by the application of methods already known,) actuarial considerations would require the setting aside of enormous reserves in order to make unemployment insurance financially sound in the United States at the present time.

[1] "Unemployment Insurance in Theory and Practice," Research Report No. 51, National Industrial Conference Board, p. 101.

We have not had extensive experience with private, coöperative systems of unemployment relief, as they have had in Europe, and, therefore, lack experience upon which to base the administration and rules of any general unemployment insurance plan we might adopt. Consequently, policies of prevention rather than insurance should receive the immediate emphasis in this country.

Unemployment insurance has already been established in eighteen countries: England, Ireland, Norway, Sweden, Denmark, Belgium, Holland, Luxemburg, Germany, France, Italy, Poland, Austria, Czechoslovakia, Russia, New Zealand, Australia, and in a small way in the United States.

It has been developed in four principal types; funds raised and administered by trade unions or other workingmen's associations, municipal funds, state funds and industry funds. All four of these plans are in vogue in Europe, and they are worked out in such varied ways that Cohen classifies them as ten rather than as four types.[1]

Unemployment insurance by trade unions and by industries already exists in the United States and state laws, which would make unemployment insurance compulsory, have been considered by

[1] Joseph L. Cohen—"Social Insurance Unified."

the legislatures of Wisconsin and Massachusetts. These American bills, however, have differed radically from the laws in England and on the Continent, emphasizing prevention rather than relief.

1. *Early Experiments*

Curiously enough, the first experiment in unemployment insurance was a compulsory plan. A law was passed in the Canton of St. Gall, Switzerland, in 1894, which provided that any commune could set up a system of compulsory insurance against unemployment and require persons earning less than about a dollar a day to pay contributions to the fund. This was an effort at compulsory self-insurance by workmen, at compulsory thrift and foresight. The town of St. Gall adopted the scheme, but it worked so badly that it was abandoned after two years and no plan of this type has been established since anywhere. The lazy stayed in town and drew benefits instead of going out of town to work; casual laborers and loafers lived on the fund.

The better class of workmen began to emigrate to other localities, and those who remained opposed the system bitterly because it took the

wages of the industrious to support idlers. One of the most stubborn problems encountered by unemployment insurance right down to the present moment has been this one. The fifty, sixty or seventy per cent of the wage earners who work most steadily feel the need for insurance least and contribute most to the funds. American travelers in England during the depression years which began in 1920 have repeatedly commented upon the dissatisfaction of the employed at "being compelled to support the loafers." Students of the problem know that in every line of insurance all who are exposed to a risk have to provide the insurance funds and that the good risks really insure the risks which turn out to be bad.

Municipal or communal funds were then established in a number of European cities. Individual laborers were permitted to join these funds. They made small weekly contributions for a part of the year, the municipality contributing very much more, and were then entitled to a number of weeks' benefit during winter unemployment. These municipal unemployment funds attracted the more thrifty of the casual and semi-casual laborers subject to seasonal unemployment. The persons insured were essen-

tially poor risks, from an insurance point of view, who took advantage of the opportunity to get a substantial public subsidy.

2. *The Ghent Plan*

Seeking a form of unemployment insurance which would avoid the inclusion of poor risks only, Louis Varle suggested to the City of Ghent that the City subsidize organizations of workers which were providing unemployment insurance for themselves and assist them to develop their meagre funds into adequate ones. Such an organization would be in a better position than the municipality to determine what workers had a legitimate claim for insurance and there would be less danger of subsidizing loafing. This was the beginning of the so-called Ghent system, which is in essence the national system to-day of Belgium, Holland, Denmark, Norway, Sweden, Switzerland and France, and they show no disposition to abandon it.

The St. Gall plan was based upon the theory that unemployment is a personal matter which should be personally insured by the individual workmen—a theory which the facts we have cited in Chapter II conclusively repudiate. The experiments with unemployment insurance in va-

rious European cities between 1894 and 1900, culminating in the inauguration of the Ghent Plan, increasingly recognized that the state also had a responsibility to make provision against unemployment. The Ghent Plan embodied the principle, "Help yourself and the state will help you," and accepted a public responsibility in the matter.

It was expected, and experience has justified the expectation, that practically all insurance funds set up under the Ghent Plan would be organized and operated by labor unions. The Ghent Plan, therefore, was a frank acceptance of the principle that labor organizations are a logical agency to provide unemployment insurance for wage earners; that it is proper for the state to assist them to do so, leaving to them discretion in devising many of the details of the plan, and that it is proper for the state to entrust to the unions the actual disbursement of public funds set aside for the relief of the unemployed. In a sense, this means that the unions disburse that part of the public poor relief which is payable to those in distress because of unemployment.

Denmark adopted the main features of the Ghent Plan, in 1907, in a national system of voluntary, subsidized unemployment insurance, but provided that the insurance associations must

be special associations formed expressly for this purpose, and that membership in such associations should be restricted to a particular trade or to allied trades. In practice, practically all of these associations have been closely indentified with trade unions. The union membership simply organized an allied but independent organization with a different name and the same personnel. The principal result of this clause in the law is to prevent the insurance funds from being merged with other union funds and used for anything but unemployment insurance.

The Danish and Belgian laws are the most carefully worked out schemes of the Ghent type. In Denmark, associations formed for mutual insurance against *unemployment due to lack of work* receive yearly grants from the national exchequers amounting to approximately one half of the total funds of the insurance associations. Benefits are payable only to persons who have been members of the fund for at least twelve months immediately preceding the date on which the first benefit is paid them, and the persons must have worked ten months in the preceding fourteen.[1] No benefit is paid for the

[1] The Minister of Interior can mitigate the ten months' work provision during periods of extraordinary unemployment.

first six days of unemployment, and the associations are permitted to increase this waiting period up to fifteen days. On the other hand, if members are subject to frequent loss of days on account of part time employment the funds can make rules to pay benefits for part time unemployment. "Members who refuse employment notified to them by the governing body of the fund or by the communal employment office, which in the opinion of the governing body is suitable to the capacity of the person concerned," are not permitted to draw benefits. Persons with more than a specified amount of property are precluded from drawing benefits at all. The associations are permitted to set aside reserves for periods of exceptional unemployment, from which reserves no ordinary benefit can be paid.

A law enacted in 1921 created a central emergency fund, supplementing the local funds, to make possible more extended benefits during exceptional unemployment. Similar central reserves have been provided in some of the other countries using the Ghent system, and they are, therefore, a matter of especial importance in connection with this plan of unemployment insurance. The local funds pay benefits for but a limited number of weeks in a year. The central

funds make possible loans and subsidies to the local funds to lengthen these periods in depression years.

In Denmark the central fund was built up at first from three sources of revenue; an annual assessment of 5% of the sums contributed to the local associations by their members, contributions from all employers subject to the compulsory accident insurance law, and a contribution from the government treasury. In 1924, assessments upon the local funds were discontinued and those upon employers were reduced, while the state contributions were increased, and workers employed on relief works financed by unemployment insurance funds were required to pay 15% of their wages into this central emergency fund.

A similar National Emergency Fund was established in Belgium in December, 1920, to make grants of local funds to members who had exhausted their rights to benefits. "It meant on the one hand," says the *International Labour Review,* "that the state took over the obligations of certain defaulting societies to their members, and on the other that it recognized its own obligations during the periods of prolonged depression not to leave without help workers who had the foresight to insure against normal unemployment, but

could not reasonably be expected to provide against the abnormal risks to which they were exposed." [1]

In January, 1921, the local funds paid 539,000 out of 1,721,000 days' unemployment benefits paid in Belgium, the remainder being paid for out of the National Emergency Fund. In May, 1921, the local funds paid for but 256,000 out of 2,610,000 days. But in May, 1923, when the depression had about run its course, the the societies paid for 168,000 out of 253,000 days compensated.

In 1922–23 there were 66 unemployment funds in operation in Denmark, with 214,000 men and 39,000 women members. Their income for the year was approximately $11,000,000 of which the state contributed nearly one third, and their expenditures were approximately $8,000,000. Administrative expenses amounted to about $1.50 per member per year, or a little over 5% of their income. The Belgian funds had 646,000 members in 1923, more than three times as many as before the World War. In 1921, 84 funds in Belgium had over 800,000 members, but some of the membership dropped away during the depression years, particularly in the agricultural sections.

[1] *International Labour Review,* December, 1920, p. 850.

The Ghent Plan has become an integral part of the economic and political system of Belgium, Denmark and Switzerland, and is used in Norway, Sweden and Luxemburg, but it has a serious weakness which various expedients that have been attempted have in every case failed to correct. It covers only organized labor. Efforts to get common laborers, agricultural workers and other unorganized earners to form unemployment insurance associations have been of little avail. The Ghent Plan leaves one half, or more, of the wage earners of the country uninsured, and they are for the most part the very classes most in need of protection against unemployment. Hence there is a growing conviction in Denmark, Belgium Germany, Italy and other countries that some general, compulsory plan must in course of time be adopted, at least as a supplement to the Ghent Plan.

It has another weakness that is more curable but just as vital. The Ghent funds have lacked financial strength to cope with prolonged unemployment. This has been partially corrected by the national emergency funds. The incomes of the Ghent funds are too small to accumulate adequate reserves. It is not likely that any system of unemployment insurance that relies entirely upon wage earners' savings and govern-

mental taxes will be able to accumulate sufficient reserves to really cope with unemployment unless unemployment is reduced a great deal. England was the first nation to face this fact frankly and fearlessly and she met it with her compulsory national law, with funds contributed by the employers, the wage earners and the state jointly.

3. *Compulsory State Insurance in England* [1]

The enactment of the British compulsory unemployment insurance law of 1911 was a bold step cautiously taken. The first Act covered only two and a half million workers, which in 1916 was increased to 4,000,000 and in 1920 to 12,500,000. Great Britain had had long experience in unemployment relief. She had punished the unemployed as vagrants. She had supported the unemployed by poor-law relief. She had collected emergency funds from charitable individuals, loaded heavy relief burdens on towns and parishes, and handled unemployment through distress committees. Voluntary insurance against unemployment by labor unions had

[1] The writers are indebted to Miss Olga Halsey of Wellesley, Massachusetts, for the use of a very fine, unpublished manuscript on the British Unemployment Insurance plan. A part of this discussion is taken from Miss Halsey's analysis of the British law.

been tried for many years and some unions had been very nearly transformed into insurance societies.

In 1910, the year before the adoption of the compulsory insurance law, 96% of the membership of all registered trade unions in Great Britain were insured against unemployment, and $4,403,945, nearly 30% of the total expenditures of the unions that year, was for unemployment benefits. During the decade, 1898–1907, 100 unions disbursed, on the average, approximately $2,000,000 a year in unemployment benefits.[1]

England has tried every known means of coping with unemployment distress except the Ghent Plan, and that was undesirable because it covered only organized labor. Consequently, after prolonged study of the problem, England ventured upon its experiment in compulsory unemployment insurance on a national scale. The disinterested student, surveying the operation of that experiment from 1912 to 1924, can hardly fail to reach the conclusion that the British unemployment insurance law is remarkably success-

[1] The reader may be interested in the comparable figures for the U. S. In 1921, $460,286 was paid out in unemployment benefits by unions affiliated with the American Federation of Labor, and their annual average disbursements for this purpose during 1903–1918 were $143,986.

ful in spite of the series of abnormal years that have submitted it to the acid test.

The outstanding features of the Act of 1911 may be briefly stated. The obligation to carry unemployment insurance was laid upon both employers and workers in seven trades—building, construction, shipbuilding, mechanical engineering, iron founding, construction of vehicles and saw milling when carried on in connection with an insured trade. It covered approximately 2,500,000 workers. The cost of the insurance was distributed among employers, workers and the state; a flat rate weekly contribution of about five cents, uniform for all trades, was due from each insured adult employee, and from the employer for each employee; to this the state contributed an additional sum of about three and a third cents. A flat rate weekly benefit of about $1.75, uniform for all trades, was payable to adult insured workers after one week of unemployment for a maximum of fifteen weeks in any period of twelve months but in the proportion, however, of one week's benefit to each five weeks' contribution.

The administration of the Act, the collection of contributions, the registering of applicants for benefit, the proffer of work and the payment of benefits, were entrusted to the Board of Trade;

later to the Ministry of Labour. The brunt of the work fell upon the labor exchanges which had been established under an earlier Act in anticipation of the later development of unemployment insurance. Special machinery, however, was developed for the judicial questions which arose in connection with insurance. All questions as to whether or not particular work was insurable were decided by an umpire appointed by the Crown. Questions as to whether the statutory conditions for benefit had been fulfilled were decided in the first instance by local courts of referees, composed of representatives of employers and workers under an impartial chairman, with an appeal to the umpire.

This Act, with contributions payable from July 15th, 1912, and benefits payable from January 14th, 1913, had smooth sailing at the outset, with an estimated income during the first year of contributions of about $10,000,000, and an estimated expenditure on benefits during the first six months of about $1,175,000. During this period weekly claims for benefit ranged from 13,578 to 62,470; 30 per cent of the unemployed fell within the waiting week for which no benefit was payable and only 1 per cent of the unemployment fell outside the limits of benefit.

Twenty-six weeks of employment in each of

the preceding five years made a worker eligible to insurance. This clause was intended to bar casuals and loafers from coming within the Act. Before he could draw benefits he had to show that he was unemployed within the meaning of the law—that he was "capable of work but unable to obtain suitable employment," that he had not left his former employment voluntarily, and that he was not idle because of a trade dispute or misconduct.

The development of unemployment insurance in Great Britain was soon profoundly affected by the war; first, by the exceptional prosperity during the war, then by the threatened depression during demobilization, and finally by the development of a depression which, in its severity and duration, has assumed the proportions of a national calamity.

During the war it became evident that in industries developed or expanded to meet war needs, there would be widespread unemployment with the cessation of hostilities. In 1916, the workers in several of the war industries were brought temporarily into insurance, which increased the number of persons covered to approximately 4,200,000.

In 1918, two weeks after the Armistice, the Out-of-Work-Donations Act was tacked on to

the insurance law, to provide government "donations" to demobilized soldiers and munitions workers not covered by unemployment insurance. This was in no sense insurance. In American terminology, it was a government unemployment bonus for war service, military and civilian. The weekly benefits paid under this "Donations" act were much larger than those paid under the Insurance Act, and they continued for a longer time. Moreover, subsequent legislation extended the periods for which donations were payable and increased the amounts of the weekly benefits. The Out-of-Work Donations Act resulted in practical suspension of the regular insurance benefits. Furthermore, though the definition of unemployment was unchanged, the administrative checks on the payment of unemployment benefits were weakened during this emergency period. Approximately $200,000,000 was disbursed in donations to ex-service men, half as much to civilian workers and about $20,000,000 in administrative expenses.

The public quickly became apprehensive of widespread abuse of the donation scheme, and it was roundly criticized in resolutions by boards of guardians, town councils, chambers of commerce and other bodies. Investigation revealed, however, that while there was some abuse of the

scheme, there was very little fraud. The widespread opinion of misuse was due to the intentional absence of administrative checks at the outset, because such checks would have made it impossible to cope with the emergency which faced the country. The investigators reported that "many persons who were not really seeking work could, and did, take advantage of it; and owing to the dislocation of industry it was not usually possible to test their good faith by offering them employment." [1] "The process of adopting additional safeguards in order to eliminate abuse of the scheme was carried out on the whole as speedily as could reasonably be expected."

It cannot be too emphatically stated that the Out-of-Work-Donations Act was in no sense unemployment insurance, that it was not a part of the real British unemployment Insurance Act, and that abuses, extravagances, and legislative or administrative blunders connected with it cannot justly be charged against unemployment insurance. The Out-of-Work-Donations Acts were but a post-Armistice war activity, a demobilization emergency measure. The administration was necessarily merged with that of the un-

[1] Great Britain, Ministry of Labour. Interim report of the Committee of Inquiry into the scheme of out-of-work donation. London, 1919, Cmd. 196, p. 6.

employment insurance law and the insurance law received the discredit of the Donations Act's faults.

Germany, Austria, Norway, Sweden, France, Switzerland, Holland, Belgium, Italy and Poland were all forced by the post-war *emergency* unemployment situation to appropriate large sums from the national treasuries to finance the necessities of workers displaced by the world-wide depression of 1920–1924. Most of these countries are still paying, in one form or another, national unemployment donations. France, Belgium and Holland were endeavoring to terminate these emergency funds during 1924. Switzerland brought its fund to an end in March, 1924, after expenditures approximating $100,000,000 had been made. In no case can these federal donations be looked upon as other than a post-war emergency measure.

Belgium, Denmark, and some of the other countries are establishing "Crisis Funds" by which they hope to care for future cyclical unemployment; England is providing for the accumulation of a reserve when the present debt of its fund is liquidated. Each of the nations is endeavoring to attain a situation (which they all appear to consider normal) in which the bulk of the nation's unemployment will

be carried by funds obtained from the contributions of employers and employees, and administrative expenses and crisis reserves are largely financed out of taxes.

Consideration of possible revisions and extensions of the unemployment insurance law culminated in the enactment of the Insurance Act of 1920, which is now the basic act. It widened the insurance scheme to cover all employees 16 years of age or over, engaged in manual work or in other work for which their remuneration is at the rate of less than £250 a year, with the exception of certain occupational groups, such as agriculture, domestic service, or employment by a public utility company.[1]

Thus by a stroke of a pen the insured population was increased from 4,197,000 under the combined Acts of 1911 and 1916, to 11,500,000 under the Act of 1920. Contributions and benefits were continued on a flat rate basis, uniform for all trades. Both, however, were increased. In the case of adult men, employers and workers each contributed about eight cents weekly and the government one-third as much. In the case of adult women, weekly contributions from the workers were six cents, from employers seven

[1] Report on National Unemployment Insurance to July, 1923. Great Britain, Ministry of Labour, London, 1923. This is the best official history of the workings of the law to 1923.

cents and from Parliament a third as much as from the other two. Adult men received benefits of about $3.75 weekly and adult women $3.00. The same definition of unemployment which has proved successful in the Acts of 1911 and 1916 was reënacted. The administration remained substantially the same except that Section 18 of the 1920 Act gave permission to industries, under carefully guarded circumstances, to contract out of the general Act and to set up for separate industries independent unemployment insurance schemes approved by the Minister of Labour. This permission was withdrawn before any industry, except insurance, took advantage of it, in order to pool the entire financial strength of British industries during the unemployment emergency of 1921. In July, 1924, the banking industry was permitted to contract out.

The whole subsequent history of this Act, both its administration and the amending Acts, was influenced by the rising tide of unemployment which threw unprecedented numbers out of work.

During 1916, 1917 and 1918, unemployment in England had reached very low figures. The contributions of employers and employees to the unemployment insurance fund had so far exceeded expenditures that the fund had invested to its credit by November, 1920, a total of about

$104,000,000. The average annual disbursements during 1916–17 and 1917–18 were approximately $170,000 and $425,000, far less than the interest earned by the unemployment insurance funds which had been put out at interest by the government. One is probably safe in saying that if no wage earners other than those trades *insured* by the 1911–1917 Acts had been permitted to draw benefits from the fund accumulated under those Acts, the British unemployment insurance law would have weathered the depression of 1921–24 without serious difficulty.

But the law of 1920 suddenly added 7,300,000 new members to the funds, and the depression of 1921 promptly threw a million and a half of them out of work before *any reserves could be accumulated for them.* The $104,000,000 which was in the treasury in November, 1920, was reduced to less than $5,000,000 by July, 1921. With its unemployment reserve swept away, England realized that it now faced an emergency of the first magnitude. Twelve million people were insured against unemployment; two million of them were idle and there was no prospect of their reabsorption by industry for months, perhaps years. To stop the unemployment benefits would mean to throw the unemployed upon poor relief or into revolution. If the unemployment

insurance law could be utilized to support them, contributions by the employers and the employed workers could be made to carry the bulk of the direct burden of the nation's unemployment.

Consequently, beginning early in 1921, a series of amending Acts were passed extending the benefits of the Act in successive periods of "uncovenanted benefits," i. e., benefits which the beneficiaries had not earned by contributions into the fund. At this point, the unemployment insurance law became for many workers charity rather than insurance. When unemployment became so bad that wage earners could not get in enough weeks' work in a year to pay sufficient contributions into the fund to buy for themselves unemployment compensation during the weeks of idleness, they became recipients of benefits provided at the expense of other workers, employers and the state.

The so-called "bankruptcy" of the British fund was due to the combined effects of furnishing benefits in 1920 and subsequent years to millions of workers who had not been contributing to the fund, giving "uncovenanted" benefits to all insured workers because of the unprecedented severity and continuation of unemployment from the winter of 1920–21 onward, and raising the amounts of the weekly benefits because of the

increased cost of living. The National Industrial Conference Board, in a report which recommended against the immediate adoption of compulsory unemployment insurance in the United States, nevertheless states:

"So far as can be ascertained, the basis of the first unemployment insurance law in Great Britain was actuarially sound. It was based on the unemployment records of the unions in the trades originally insured, and during the first years of its operation no financial difficulties were encountered and a large reserve was built up. The bankruptcy of the unemployment fund in 1921 was due to three definite circumstances: (1) the acute depression, which threw large numbers of persons out of work very quickly and lasted for an unprecedented period, was in the nature of a disaster comparable to floods, fires, shipwreck, etc., to meet the consequences of which privately organized commercial companies are often forced to borrow to the extent of their credit; (2) just prior to the beginning of the industrial depression, eight million workers, who previously had not been insured, were admitted to the scheme, and after making a few contributions, were entitled under the law to draw benefits. This in effect trebled the potential demand on the fund, at a time when the actual demand was rapidly rising because of industrial conditions; and (3) as the depression continued, more and more persons insured under the Act exhausted their rights to benefits and were in distress. To meet

this situation, provision was made for the payments to insured workers of special benefits without corresponding contributions. This increased the demand on the fund with no compensating accumulation of resources." [1]

The rates of contribution by employers and employees were almost doubled in 1921 to help meet the cost of these extra drains on the insurance fund, and the balance of the deficit was taken care of by loans from the National Treasury. Permission was given the insurance fund to borrow not more than approximately $145,000,000 from the Treasury and over $100,000,000 was actually borrowed, *two thirds of which has already been repaid.* Let it not be forgotten in this connection that the total benefits paid in the year 1921–22 were $256,000,000 and in 1922–23 over $200,000,000, of which over 50% in each year was for uncovenanted benefits. In these two years alone, the amount paid out for uncovenanted benefits was nearly three times the outstanding indebtedness at the close of the year 1922–23.

The debt of the insurance fund to the National Treasury has been widely heralded as "the bankruptcy of the British Unemployment

[1] Research Report No. 51, National Industrial Conference Board, p. 62.

Insurance System." Is an overdraft at the bank, which the borrower can pay off within a reasonable period out of his current income, bankruptcy? Though the debt of the British fund was not one contracted in the ordinary process of the unemployment insurance fund, but foisted upon it by emergency national legislation that forced the fund to carry the burden of the unemployment of millions who had not contributed to its reserves, the fund was reducing its debt during 1924 at a rate that promises to clean it up before June, 1926, at which time the government actuaries expect to be able to begin the accumulation of depression reserves at the rate of between $5,000,000 and $10,000,000 per year.

Great Britain encountered many difficult problems of trade demarcation under the Acts of 1911 and 1916. To define industries with sufficient precision for insurance purposes was in many cases almost impossible. Modern industries, for many reasons, frequently include departments manufacturing most diverse products. Note, for instance, the diverse products manufactured by the Swift Packing Company, the Winchester Arms Company, or the Ford organization, and thousands of other concerns which either work up by-products into many un-

related items or have brought diverse lines of manufacture within the control of a single organization.

Opinion in government circles, among employers and in much of the British trade union world, seems agreed that the problem of defining and separating out the different trades is an important obstacle to the development of compulsory insurance through separate industry funds instead of under a common natural fund. Mr. C. E. Phillips, the assistant secretary in charge of the employment and insurance sections of the Ministry of Labour said on this point:

> "When trades came to look into the matter thoroughly they found it extremely difficult to say where an industry began or where it ended. . . . It is very difficult to define a large industry with the accuracy necessary for the purposes of a special scheme."

The report on unemployment insurance issued in January, 1924, by the National Confederation of Employers' Organizations declared that "compulsory insurance by industries is, in any event, quite impracticable on any comprehensive scale. There would be considerable difficulty, in very many instances insurmountable, in the way of strict demarcation between industry and industry. In addition, there is a substantial

proportion of workers who, although members of well defined labor organizations and always working at their own craft, move from industry to industry."

The reader will note that the difficulty referred to obtains only in case of a requirement imposed by law upon each industry to insure its employees. When an industry *voluntarily* establishes unemployment insurance, without any governmental legislation, as was done by the employers and employees jointly in the clothing industry of Chicago, they can define the limits of their industry to suit themselves.

The principal demand for industry insurance in England has come from those who believe that each industry should bear its own employment cost instead of pooling the risks of all industries; from those who think that both the administrative and benefit costs could be reduced if each industry handled its own unemployment; and from those who believe that industry insurance would be a more effective stimulus to prevention than the present scheme.

Mr. S. Pascall, a British confectionery manufacturer, speaking on this subject at a conference in London, said that the confectionery industry had considered the feasibility of insuring the industry as a unit, and had rejected the proposi-

tion because "it would tend in our case to penalize the good firms for the benefit of the bad ones." The dilemma faced is apparent. If all the concerns in the industry combine in an industry scheme, the firms with stable employment have to help pay the compensation of the employees of concerns which do not afford steady employment. This seems unfair to the good firms. If the good firms and the bad firms are not insured in a common fund, the unemployment insurance costs borne by the bad firms are high, and are apt to result in the dissolution of some of these concerns since they are as a rule less efficient in many ways than the concerns which are stabilizing. Labor bears the risk under these conditions of the failure of such firms to develop adequate reserves for labor's protection.

The great practical difficulty faced in any plan which puts unemployment insurance on an industry basis is the insuring of that large number of workers who pass back and forth from industry to industry. When the British law of 1920 permitted industries to "contract out" of the national scheme and set up approved private schemes the national fund had to face the fact that the industries which would contract out would be those with the least unemployment, leaving the bad risks for the national fund, and

that a great number of workers who pass from industry to industry would have to be carried by the national fund, probably largely at the expense of the taxpayers. Consequently, the permission to contract out was suspended by the government and is apt to be permanently cancelled. Mr. W. H. Beveridge, the leading British authority on the subject, said on this point:

"I do not believe myself that insurance by individual firms is going to go very far, because the main problem of unemployment is the floating fringe of work people who float from one firm to another and from one industry to another. I am not going to say that I am certain that no special scheme for a trade will go very far, but the difficulties of demarcation are much greater than people think. That is no reason, however, why such schemes should not be tried. I think that some industries could do their own insurance, but I am certain that a large amount is going to be left behind, which has got to be dealt with by some form of state insurance." [1]

The suggestion that costs would be reduced under industry insurance is based on the idea that the people in each industry are in a better position than are the government insurance of-

[1] Unemployment Insurance, issued by The National Federation of Employees Approved Societies, London, Nov. 22, 1921.

ficers, to economically determine whether or not a particular claimant for unemployment benefit is entitled to it, that they would more effectively cut off improper claims, and that adminstrative costs could be reduced by paying out benefits at the plants or through sick benefit societies. Many British employers have been unable to see how decentralized administration would be cheaper than centralized.

Mr. William Blaylock of Chivers & Sons, Ltd., speaking at the London Chamber of Commerce on February 9th, 1923, pointed out that the accumulation of unemployment reserves in each industry separately would decentralize reserves and tie up an unnecessarily large amount of capital in reserves, just as decentralized bank reserves must be larger than an equally safe centralized reserve. Furthermore, he maintained that a centralized reserve to which all industries contribute is required by the nature of the problem. Unemployment is partly a national matter. It is maintained that the causes of unemployment and the burdens of unemployment belong in considerable part to the nation as a whole rather than being separate for each particular industry. Some industries are active when others are dull and when all contribute to a common fund the general burden is equalized.

The industries active during each period contribute current income to maintain the funds. In depression periods the strength of those industries able to get business becomes the backbone of the insurance scheme.[1]

4. *Unemployment Insurance in the United States*

The discussion of unemployment insurance in the United States has centered around the individual industry. Both the bills introduced in

[1] It is interesting to note that the new unemployment insurance law of Poland, a fairly faithful copy of the British Act, is organized on a national fund rather than an industry fund basis. The law went into effect on August 31, 1924, and covers all workers of either sex over 18 years of age in industrial, mining, commercial, transport and communication industries where five or more employees are employed. The employers pay into a central state fund 3% of their pay roll, of which one-half is taken out of the workers' wages. The state contributes one-third as much as the employers and employees together. Single workers draw 37 % of their wages; persons with one or two dependents, 35 %; persons with three to five dependents, 40 %; and persons with more than five dependents, 50 %; benefits beginning on the eleventh day of unemployment, and being subject to a 13 weeks' maximum in one year. Only workers with 20 weeks' employment in the year preceding the filing of the claim can draw benefits.

The Italian system, established by Royal Decree No. 3158, Dec. 30, 1923, is also a *state* fund rather than an *industry* fund plan, though voluntary industry funds had developed earlier in Italy.

The German system, established by a series of government orders, which culminated in the orders of Feb. 16th and March 25th, 1924, is also a state system in which the employers and employees contribute four fifths of the funds and local public authorities, one fifth.

the legislatures of Wisconsin and Massachusetts and the voluntary plans developed in certain American industries have assumed that insurance should be for industry rather than for geographic units. Such public insurance legislation as has been proposed in the United States with regard to unemployment has been aimed at prevention rather than relief. The voluntary plans established in various American industries also emphasize the prevention idea.

5. *A State-Wide Proposal for Wisconsin*

The Huber Bill, the unemployment insurance bill twice considered by the Wisconsin Legislature, is primarily a prevention measure, and only incidentally intended to relieve the needs of the unemployed.

"The Huber Bill proposes that when an employer lays off a man, if the man has had six months' work in the state, the employer shall pay him a dollar a day for a period of thirteen weeks, and pay the state ten cents a day additional toward expenses of administration. This creates a possible liability of about $90, added to every man taken on, in case he is laid off through no fault of his own, but simply through fault of the management.

It means an added liability which the employer assumes when he hires a workman, so that, under

such circumstances, it should be expected that when an employer wants to expand, and he ordinarily cannot expand except by getting credit, to be followed or increased by stock or bond issues, he will go to the bank for additional credit, and the banker will necessarily inquire as to what security he has that, at the end of these rush orders, he will be able to continue the employment or pay that possible $90.

"In other words, the business man and the financier together are the controllers of credit, and it is the control of credit which can stabilize business. The overexpansion of credit is the cause of unemployment, and to prevent the overexpansion of credit you place an insurance liability on the business man against the day when he lays off the workmen. The last employer is made responsible, but he is required to insure himself, so that the industry is made responsible." [1]

The employer can escape his liability by securing a job with another employer for the man he lays off. Hence, employers would be stimulated to assist in labor distribution.

The distinctive characteristics of the Huber Bill are that it puts the burden of unemployment insurance exclusively upon the employer and that it enables the individual employer to reap the benefit of what he accomplishes in providing

[1] "The Stabilization of Business," from Ch. IV (written by John R. Commons).

steadier work for his men. The St. Gall and trade union plans have put the burden entirely on labor; the Ghent Plan has divided the burden between the worker and the state; and the British and Polish plans have divided the burden between the employer, the employee and the state. The Huber Bill, finding its precedent in accident compensation legislation, puts the burden on the employer in order to encourage him, as the manager of industry, to stabilize employment. The sponsors of the bill believe that it would promote stabilization within plants and industries, cause employers to interest themselves in the development of public works during depression periods and cause employers to see that the labor market is efficiently organized so that idle workers will have the maximum opportunity of securing such employment as is available.

The Huber Bill, following the precedent set by the Wisconsin Workmen's Compensation Act, which permits employers of sufficient financial responsibility to be "self-insured," would permit large employers to set up their own unemployment reserves and handle the whole matter of unemployment insurance within their own business, merely specifying the amounts for which each employer would be liable and the conditions of payment. Such concerns would reap

the entire benefits of whatever reduction in unemployment benefit costs they could achieve by steadying employment. Smaller concerns which could not carry their own risks, and which *do not want to try,* would be organized in mutual insurance companies, which would be directly interested in the reduction of the risks of their members.

6. *Voluntary Unemployment Insurance—The Trade Union Funds*

Three kinds of voluntary unemployment insurance schemes have been developed in the United States: the trade union funds, establishment funds and joint agreement market funds. Unemployment insurance through trade unions in the United States differs radically from that in Europe. In essence, it goes back to the old theory that unemployment relief is a matter to be dealt with by the voluntary efforts of the workers themselves,—the individualistic philosophy of unemployment. A recent investigation by the United States Bureau of Labor Statistics discovered that three out-of-work benefit plans are now in operation in national and international unions and these have but 5,000 members in all.

Four national organizations had abandoned plans previously in operation, and thirteen unions reported local unemployment benefit plans. Three organizations stated that unemployment insurance plans had been rejected by their national conventions, and one that the convention voted to leave the matter to local action. Another recommended such action to the locals. Approximately 28,000 of the more than 11,000,000 industrial wage earners of the United States are covered by these trade union plans. Obviously, unemployment insurance on the initiative of workers' organizations has had but scanty development in this country. During the last two years several unions have forced employers' associations to enter into joint agreements to provide unemployment insurance and these plans now cover more wage earners than the union schemes.

Seven unions stated that their locals had made agreements with their employers providing a guaranty for employment, and one reported a national agreement containing such a guaranty. Six had inaugurated negotiations with employers looking toward action of some sort. In the men's and the ladies' garment industries, cap manufactures and the lace-making industries,

unemployment insurance systems have been set up by joint action of the unions and the employers and several plans of this type are pending in different industries. This seems to be the line along which American unionism will proceed in the development of more extensive unemployment insurance plans.[1]

In 1920, but 12 per cent of the total number of gainfully employed persons in the United States were organized. Unemployment insurance by unions would cover at best but a small portion of the wage earners of the country. Moreover, the wage earners are not able from their slender resources to set aside large enough funds to carry their members over long periods of unemployment. Obviously, something more than trade union funds are needed. If it is decided to seriously undertake unemployment insurance in this country it is obvious that trade union plans are not sufficient.

7. *Individual Establishment Funds*

The Dennison Manufacturing Company of Framingham, Mass., was the pioneer in the

[1] These market funds are discussed in detail on pages 201 and following.

development of establishment funds.[1] With unemployment among their employees reduced to a minimum, through expedients mentioned in Chapter I, the company was in a safe position to launch a "relief of unemployment" plan. A fund was set aside out of the profits, and accumulated over a period of approximately five years. In their announcement of the fund the company said:

"It is necessary to bear in mind at the start the status of this fund, both because the status represents the adjustment to a new industrial concept and because the reaction to the program which this fund involves will be determined in no small degree by the conception of it which prevails. In the first place, it is not charity; it has a business basis and must rest upon considerations of mutual advantage, with mutual self-respect. This business basis it must find in securing and retaining better employees, in better work on the part of the employees, due to their release from the risk of periodic total loss of income through unemployment, and in a steadier working force due to the abrogation of the risk that the employee will find permanent work elsewhere during times when he is unemployed.

[1] In a speech before the Wisconsin Legislature on February 20, 1923, Mr. Henry S. Dennison said of their experience with the plan:—"We have gotten from unemployment insurance more value than we have from any other one kind of managerial device. . . . There is nothing that we would dislike to give up more than our unemployment insurance plan, as long as there is no general unemployment insurance law in Massachusetts."

"In the second place, our establishment of an Unemployment Fund is not a guarantee either of permanence of employment or of maintenance of the regular wage rate. Lacking knowledge on the subject, we provide a fund, setting emphasis on its wise use, and stating plainly that we do not guarantee its renewal."

The administration of the funds and the formulation of the rules for benefits was put into the hands of a special committee, of which two representatives were representatives of the employees elected by the General Works Committee and two from the management.

The program of the unemployment committee provided at the start that in the event of employment shortage in any part of the plant, the actual laying-off of any employees should be avoided whenever possible by temporarily transferring those for whom there was no work to other parts of the plant where there was work. If this transfer resulted in a materially lowered wage rate, it is recognized as constituting a basis for a claim upon the Unemployment Fund. Employees, regardless of length of service, are paid for all unemployment of one-half day at a time or over. No lay-off or transfer of less than half a day at one time is considered unemployment. Whenever there is actual unemployment, the Fund is set in operation for the relief of distress in the

following manner: Employees who are temporarily laid off receive 80% of their regular wages if they have dependents and 60% if they have no dependents. Both classes of employees, when they secure temporary work outside, are entitled to an amount equal to 10 per cent of their outside earnings plus 90 per cent of their earnings with the Dennison Company, the unemployment fund being used to make up the difference between this amount and what they receive outside.

Employees who are transferred inside to other work are paid their full wages if they are time workers and 90 per cent of their six weeks' average if piece workers. Whatever they are worth on their new job is charged to operating expenses and the rest is made up out of the unemployment fund. At any time after six days' payments have been made the Unemployment Fund Committee may stop payments to any employees who, in its opinion, are not making proper efforts to secure outside work.

Thus in all cases where the employee's earning power is temporarily reduced because of lack of employment, whether the employee is rendered idle or secures temporary employment in some other work inside or outside the factory, he is protected against any severe hardship.

Moreover, the company retains the right, if it deems best, to discharge employees; but discharge because of shortage of work—besides being regarded as the last resort to be resorted to only when the shortage cannot be considered temporary—is not permitted to create an unemployment problem for which there has been no warning. An employee cannot be summarily dismissed because of lack of employment (outside of all safeguards which the Dennison system has created) without receiving two weeks' notice or its pay equivalent, thus assuring the employee two weeks to place himself to better advantage.

In this endeavor the company has kept two fundamental principles constantly in mind. The first is that the highest goal is always the prevention, not the relief of unemployment. The second is that what will do most to prevent relief from having a tendency to pauperize the employees and check their efforts to safeguard their future, and what will do most to make the giving of relief a stimulus to the employer to prevent unemployment, is the distribution of the expense of unemployment. Thus those who share in the responsibility for unemployment,—the employer, the employee, and the consumer of the products of the industry in question—will each share in

the burdens of unemployment as far as possible.

The Deering, Milliken Company of New York, a company which hires employees, after wages and current interest on capital have been paid, sets aside two sinking funds equal in size, one to protect capital earnings in lean years and the other to protect wages in lean years. This second sinking fund is called The Unemployment Guarantee Fund and consists of 15% of the net earnings after current wages and interest are paid. From this fund all employees who work on a weekly or hourly basis receive half pay during periods of unemployment. The regulations under which this fund is administered are entirely in the hands of the Board of Operatives, which is elected by secret ballot of all employees.

The regulations provide that the fund shall insure "regular employees against unemployment" for loss of time below the 48 hour week, or if the fund is below $50,000 for loss of time below a 35 hour week. In 1920, nearly $60,000 was disbursed from this fund to 750 operatives at the Rockland Finishing Company or 5% of the annual payroll; and about $16,000 between 400 and 500 operatives at the Dutchers Bleacheries, sub-

sidiaries of the Deering, Milliken Company.[1]

Among the railroads in the United States the Delaware & Hudson Railroad Company is practically alone in its adoption of an unemployment insurance guarantee. This insurance is provided by the railroad company without cost to the employee. Employees with two years or more of continuous service who subscribe for and continue to carry at least two of the three forms of contributory insurance to which they are eligible (contributory life insurance, sickness insurance, accident, or accidental death and dismemberment insurance) are automatically insured at the company's expense against unemployment resulting from dismissal for any cause, in the amount of $15 per week for a period not to exceed six weeks, or for so much of that time as the employee is unable to find employment. Employees whose average annual compensation for the preceding two years of service has not been more than $1,000 are paid $10 per week for the same period.

The difficulty with these establishment plans is

[1] For further details concerning these establishment plans see "Experience of American Employers Favorable to Unemployment Compensation," published by the American Association of Labor Legislation, New York, and *Monthly Labor Review*, July, 1924.

simply that the great majority of concerns will never voluntarily follow the example of these pioneers.

8. *Joint Agreement Market Funds*

The so-called "market funds" created by joint agreement of employers' associations and labor unions in connection with their "trade agreements" promise greater usefulness, but there is no indication that they will benefit even as large a proportion of our wage earners as the Ghent Plan benefits in the countries where it exists. At best these plans will provide unemployment insurance only for organized labor, and they leave untouched the much greater and more serious problem of unemployment among the unorganized wage earners, which, apparently, can be met only by legislation.

Two plans form the model for the market type of unemployment insurance, the "guaranteed employment" plan in the Cleveland ladies' garment industry and the insurance plan of the Chicago men's clothing industry. The Cleveland agreement was consummated under a decision of a board of referees which was handed down in May, 1921. In its decision the Board said: "We . . . believe that the time has come when the regular workers in the industry are en-

titled to a minimum guarantee and that this is a proper and necessary burden on the industry."

The plan was the result of a compromise, the union agreeing to the introduction of production standards and the employers consenting to the assurance of a definite minimum annual income to the workers; that is, the union offers a reward for increased employment, the manufacturers a reward for increased production.

As now constituted the scheme provides that each worker shall be assured of at least 40 weeks of employment each year. The worker who exceeds 12 weeks of idleness is entitled to draw upon the unemployment fund to the extent of one half his weekly minimum. The employer's liability is limited to 10 per cent, i. e., he must lay aside each week a sum equal to 10 per cent of his total direct labor payroll, on the basis of the May, 1919, wage scale (the peak scale), to constitute an unemployment insurance fund for his plant, and pay the workers one half of their minimum wage for all time unemployed over 12 weeks, each worker to accumulate the full period of permissable unemployment before he begins to draw on the fund. Obviously, if an employer can keep his workers from 13 weeks of idleness he will retain the fund.

The fund is not actually laid aside, but the em-

ployer gives a surety bond to the board of referees, which has charge of the fund, in an amount equal to the contemplated percentage of his payroll. This prevents holding idle capital, but fully protects the worker.

It is estimated from available records that the average factory in the industry was working about 36 weeks a year, leaving 16 weeks of unemployment. Under the plan, therefore, industry is made responsible for four of the 16 weeks to the extent of one half of the worker's wage, and responsibility for a maximum of 12 weeks is borne by the worker. Should a worker secure other work during his lay-off, his right to draw his unemployment pay from his regular employer is not affected, and assuming that he received the same wage, he would, after the 12 week period, receive one and one-half of his scale.

The unemployment pay not only is a substitute for employment, but is in the nature of a penalty imposed on the particular employer for failure to get work for his employee. It also eliminates the incentive for workers to remain idle which would exist if they should lose their unemployment pay by securing other work.

When a worker is laid off, he is given a duplicate lay-off slip, marked with the date of lay-off and if possible the time of return. When he re-

turns the date is marked on the slip. When the worker's slips show that he has accumulated 12 weeks of unemployment, the benefit begins. By this method the worker knows exactly where he stands and misunderstandings are avoided. The manufacturer's record of unemployed time is kept on a form provided for the purpose.

The employer is given some latitude in the matter of employment of casual workers. New employees must pass a two weeks' probationary period before acquiring the status of regular employees, but each employer is permitted to employ, for a period not exceeding four weeks, once in each of the two seasons, additional workers not to exceed 20 per cent of the workers in any one department.

OPERATION OF THE CLEVELAND GUARANTY FUND, 1921 TO 1923

Period	Total number of shops in fund	Total amount of fund	Per cent of fund		Number of shops			
			Saved	Paid out	Saving total fund	Saving more than half fund	Paying more than half of fund	Exhausting fund
1921 ..... 6 months)	33	$93,274	65	35	5	12	12	4
1922	25	156,000	78	22	11	5	5	4
1923	21	166,871	85	15	5	11	2	3

In October, 1923, 75 manufacturers represented in the Chicago Federation of Clothing Manufacturers and the 35,000 clothing workers affiliated in the Chicago Joint Board of the Amalgamated Clothing Workers concluded arrangements fixing the principles governing the establishment of an unemployment fund. Similar arrangements have been made with the Contractors Association, composed of 150 contractors who employ practically 5,000 members of the Amalgamated Clothing Workers, and with 100 or more independent firms, not members of the federation. Each employer, whether federation or independent, has his individual agreement and separate fund.

In their present form the unemployment funds are being raised by weekly contributions amounting to 3 per cent of the actual weekly payroll. Employees, through a check-off system contribute 1½ per cent of their wages, and the manufacturers contribute a like amount. The funds are administered by boards of trustees made up of representatives of the union and the manufacturers, with a neutral chairman. Hart, Schaffner & Marx and the House of Kuppenheimer each has a board of trustees. For convenience in administration all other federation houses have one joint board. The Contractors

Association has its separate board. Independent nonfederation firms have their own board. Dr. John R. Commons is chairman of all five boards. In actual practice the Contractors Board and the Independent's Board automatically accept the decisions of the other three boards. Theoretically, each of the approximately 325 houses has its own board; actually three boards administer the scheme.

A joint advisory committee, with authority to consult outside experts, was appointed to recommend rules and specifications concerning records to be kept by manufacturers, union and trustees, transfer of contributing employees from one manufacturer to another, return to employment of contributing employees temporarily withdrawing from the industry, the proper method of calculating benefits in case of short-time employment, and other matters of like character upon which the boards of trustees desire recommendations.

Under the provisions of the plan, only employee members of the union who have been in good standing for one year and who have made contributions regularly during their employment are entitled to benefits. The market is practically 100 per cent organized.

Benefits are paid only for involuntary unem-

ployment resulting from lack of work. No benefit is paid those who quit their jobs voluntarily, but remain in the industry, or are discharged for cause or who refuse suitable employment, nor are benefits paid for unemployment directly or indirectly resulting from strikes, stoppages or other cessation of work in violation of the trade agreement now in force between the manufacturers and the union. Three groups of workers may be eligible for benefits: (1) Those who are on lay-off in excess of the waiting period; (2) those out of work because their shops are closed permanently or whose release has been agreed upon by the employer and the union because of shrinkage of employment in the shop, and (3) members on short time, losing more than four hours in the week in excess of the waiting period.

The rate of benefit is fixed at 40 per cent of the full time wages of the individual, with $20 per week as a maximum. A worker on short time may not be credited in any week with wages and benefit in excess of $50. Payment of benefits is restricted to five weeks in the calendar year, benefits for no more than two and one-half of which are payable in either of these two seasons, May to October and November to April. Each hour of overtime of workers on short time offsets one of unemployment. Workers withdrawing from

the industry and stopping contributions to the fund who return later and become unemployed may be given one week of benefit for every 10 weeks employed in the industry during the year. The waiting period in each of the two seasons is 44 hours.

When a worker is employed temporarily, his current contributions are transferred to the fund of the firm that permanently employs him. When a worker is separated permanently from a firm, he forfeits his claim upon the fund of that firm but shares equally with the other employees in the fund of the employer who next gives him permanent employment.

Neither manufacturer nor union has any right or property in the fund, and provision is made against its being subject to any claim against manufacturer or union or contributing employee. Should the manufacturer be compelled to contribute to a Federal, State, or municipal employment fund his contributions will be reduced in like amount.

Collection of the fund was started the first payroll week following May 1, 1923, and is made weekly. In order to build up a reserve and prevent immediate drains on the fund, benefits were not to be paid for one year. By May 23, 1924, when the first payment was made, the fund had

passed the million dollar mark. Because of the extremely depressed condition of the market, the drafts upon the fund already have been very heavy.

How far this plan will go in dealing effectively with the problem of unemployment, or whether the scheme can be made permanently effective in a single market, it is impossible to determine. One indirect benefit will undoubtedly be the statistical data revealed by the records which are necessary to the operation of the plan, such as weekly records of the number of hours worked by the individual workers, earnings, overtime, short time, etc., which should be valuable in determining the unemployment risk in this seasonal industry.

Manufacturers express the belief that the plan will prove a stabilizing influence, that there will be less fluctuation in the employment of clothing workers in the market, and that it will be possible to secure a labor force better adapted to perform the work.

As to the effect of the plan upon regularization of employment, it is the belief that the natural impulse to secure as much work as possible will be intensified by the desire of the manufacturer to keep his payments to the unemployment fund as low as possible. The agreement furnishes an

incentive in the provision that the fund shall not be permitted to accumulate beyond an amount equal to the total maximum unemployment benefit which would be payable during a period of two years to all of the then contributing employees of the manufacturer. Whenever the fund reaches such maximum, the contributions of both manufacturer and employee who have contributed one full year are suspended. Payments are revived when the fund is again reduced to an amount less than the total maximum benefits which would be payable during a period of one year.

The Chicago plan is genuine unemployment insurance and is the most ambitious experiment that has been attempted in the United States. It uses both "house funds" and "market funds" and emphasizes both relief and prevention considerations.

From May 1, 1923 to October 31, 1924, the total contribution paid into the funds amounted to $1,574,652.96; the total unemployment benefits paid to the clothing workers between May 1, 1924, and October 30, 1924, were $872,587.75. Expenses consumed $81,637.69. The spring and summer of 1924 were unusually dull and unemployment was bad. In six months over 55 per cent of 18 months' contributions was dis-

bursed in benefits and 5.2% in expenses. The contracting parties face the necessity of either reducing benefits during the next year or increasing the rate of contributions. That this would probably be necessary was foreseen by those administering the fund before benefits were begun. Reserves had not been accumulated for a long enough period to provide sufficient reserves for a bad year. But neither the employers nor the union consider this difficulty to be more than one of the necessary readjustments incidental to pioneering. It does not indicate that the plan itself is defective. On the contrary the plan has worked with sufficient success so that the Clothing Workers' Union is endeavoring to establish it in all clothing markets and have secured an agreement of the New York manufacturers to start such a fund on December 1, 1924. The International Ladies' Garment Workers and the Cloth Hat and Cap Makers' Union have already obtained contracts for the establishment of the plan in their industries. The fur workers are on the eve of similar developments.

CONCLUSION

We must either smooth the curve of workers' wages by providing income in slack seasons or smooth the curve of employment.[1] These are two different but related problems.

Assuming that the cycles and seasons are to continue, then the smoothing of wages prescribes the remedy of setting aside reserves during the period of apparent scarcity and false prosperity in order to pay wages during the period of apparent overproduction. Whether these reserves shall come out of wages or out of profits or both it is difficult to determine. At the same time, it is well known, and was realized more than a century ago, that laborers will accept lower wages per day, if they have assurance of steady employment at steady wages. This principle was taken advantage of in the inauguration of the unemployment insurance system of the men's clothing industry in Chicago. What actually happened was that the workers accepted a 7 per cent increase in *current wages* instead of

[1] The reader's attention is called to a very suggestive article on "The Future of Unemployment Insurance," by Leo Wolman, in the *American Labor Legislation Review,* March, 1923.

a 10 per cent increase, on condition that an additional 3 per cent should be taken in the form of *deferred wages* during unemployment.

Modern industry must bear two kinds of overhead—capital overhead and labor overhead. Each is equally entitled to consideration, and it is a matter of adjustment, or ingenuity, in each particular establishment or industry, at each particular time and place, to determine how much shall be declared *currently* in dividends and wages and how much shall be carried over for *deferred* dividends and *deferred* wages.

In considering the problem of prevention, a curious paradox confronts us. Large establishments have presumably a larger item of overhead relative to the number of employees, and this overhead would seem to intensify the inducement of large-scale industry to make greater efforts to smooth out production and thus reduce the overhead costs per unit of product. Yet the investigation made by the National Bureau of Economic Research reveals the fact that, in the depression years 1921 and 1922, on a total enumeration of 4,100,000 employees removed from the payrolls, the establishments having 20 or less employees laid off only 3 per cent (2.64) of their employees; the establishments having 21 to 100 employees laid off 15

per cent (14.56); and the establishments having over 100 employees laid off 23 per cent (22.78).[1] Other investigations do not show such great differences,[2] but, as far as it goes, it indicates not only a paradox, but also the focus for applying remedies. Practically all establishments of 20 employees or less may be disregarded, or should be treated quite differently from those having 21 or more employees. And the paradox of employers contending that they do not need additional incentive unemployment insurance to cause them to stabilize employment, since the heavy overhead of industry is already an adequate inducement, falls to the ground. The cycle of employment and unemployment tends to increase, or, at least, not decrease in amplitude as industry is concentrated in large establishments.

Already, in the Chicago clothing market, large firms have cut down their peaks somewhat; the union, through its employment office and its discipline of union members, is guarding against waste in the employer's business and abuse of the benefit payments; and, most significant of all, the employers generally are taking seriously

[1] Bureau of Economic Research, Employment Hours and Earnings in Prosperity and Depression, U. S. 1920–1922, pp. 31–35, 54–59. New York, 1923.

[2] Cp. Illinois Labor Bulletin, monthly issues, 1923. Chicago.

to heart the new standards of competitive success which turns upon their ability to smooth out the curve of employment.

It may be argued that these and other isolated projects have not had and will not have much effect in getting back to what many think is a fundamental cause of business cycles—the credit policies of bankers and of the reserve bank systems, but, as we have said, this is a separate subject in itself and a highly controversial one. Some of the most thoughtful banking authorities emphasize the importance of what the individual producer can do through his own efforts, guided by improved statistical technique.[1]

[1] It is interesting to note at a recent meeting of authorities interested in credit policies that there was a strong body of opinion that more could be accomplished by social control and restraint than by any artificial discount policy.

The following quotations indicate the importance laid by these authorities on the necessity of education of the individual producer to help control the situation.

". . . The business man, the manufacturer, the banker and the farmer are constantly being kept advised with regard to trade cycles, price levels, inflation and deflation, and the increases and decreases in production, distribution and consumption. True enough that statistics and interpretations frequently are faulty and misleading, but the consistent dissemination of economic information produces, none the less, excellent results in several directions. It teaches all classes of producers that they are interdependent, not only nationally but also internationally; as far as they can see, the sky may be cloudless and blue; it helps them to understand economic phenomena when they have become actualities, and by understanding them to meeting them intelligently." Paul M. Warburg—"Price Fluctuations and the Discount Policies of Central Note Issuing Banks." P. 86.

Another limit to the scope of unemployment prevention may be said to be the space limit. Though, as we have emphasized, individual establishments and single industries can do a great deal to help themselves, there are limitations to the effectiveness of such action unless, on the one hand, competitors and, on the other hand, other industries are brought into line. Even a single State of the American Union cannot go as far as it might when the American nation is holding back; and a single nation is limited in its effective control of these matters unless it secures the coöperation of other nations.

Yet nothing will be done, either in credit stabilization or in unemployment stabilization if each establishment, each industry, or each state, or nation, waits until the others begin. Beginnings must be made in spots, and then the lag-

"There is one other aspect of this matter that should be selected from among the many that are worthy of notice and that is the change that has developed in *production*. It is a very generally recognized fact that we are to-day working much more closely from hand to mouth than ever before. This is partly the result of better production statistics than we have ever had, partly the outcome of closer communication and better information as to productive conditions, stocks on hand and future demand than had previously been possible." H. Parker Willis—"The Present Relationship Between Credit and Prices." P. 116.

(See "The Future of Prices at Home and Abroad," Proceedings of Academy of Political Science in the City of New York, Vol. XI, No. 2, January 1925.)

gards must be brought up to the level of the beginners.

And so, if you inquire whether unemployment can be materially reduced in this country by such business experiments as we have outlined above, we can only say that at first the limits are narrow and the barriers are very high. But like every other line of progress in modern life the limits tend to recede by means of each little exercise of ingenuity on the part of an individual or an industry, a state or a nation, and by means of setting up collateral and auxiliary schemes of stabilizing in the whole field of credit, taxation, government policy, labor organization and business management.

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1914, June, 1915, December, 1920, September, 1921, December, 1921, March, 1923, June, 1923, December, 1923, March, 1924, June, 1924, and September, 1924. The *International Labour Review,* published by the International Labour Office of the League of Nations, is the best source of information upon the facts of unemployment in Europe in recent years and upon unemployment policies and unemployment insurance in all countries. The *Monthly Labor Review* summarizes the current employment statistics of the United States each month, reviews foreign statistical publications and reports developments in unemployment insurance in the United States and foreign countries.

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